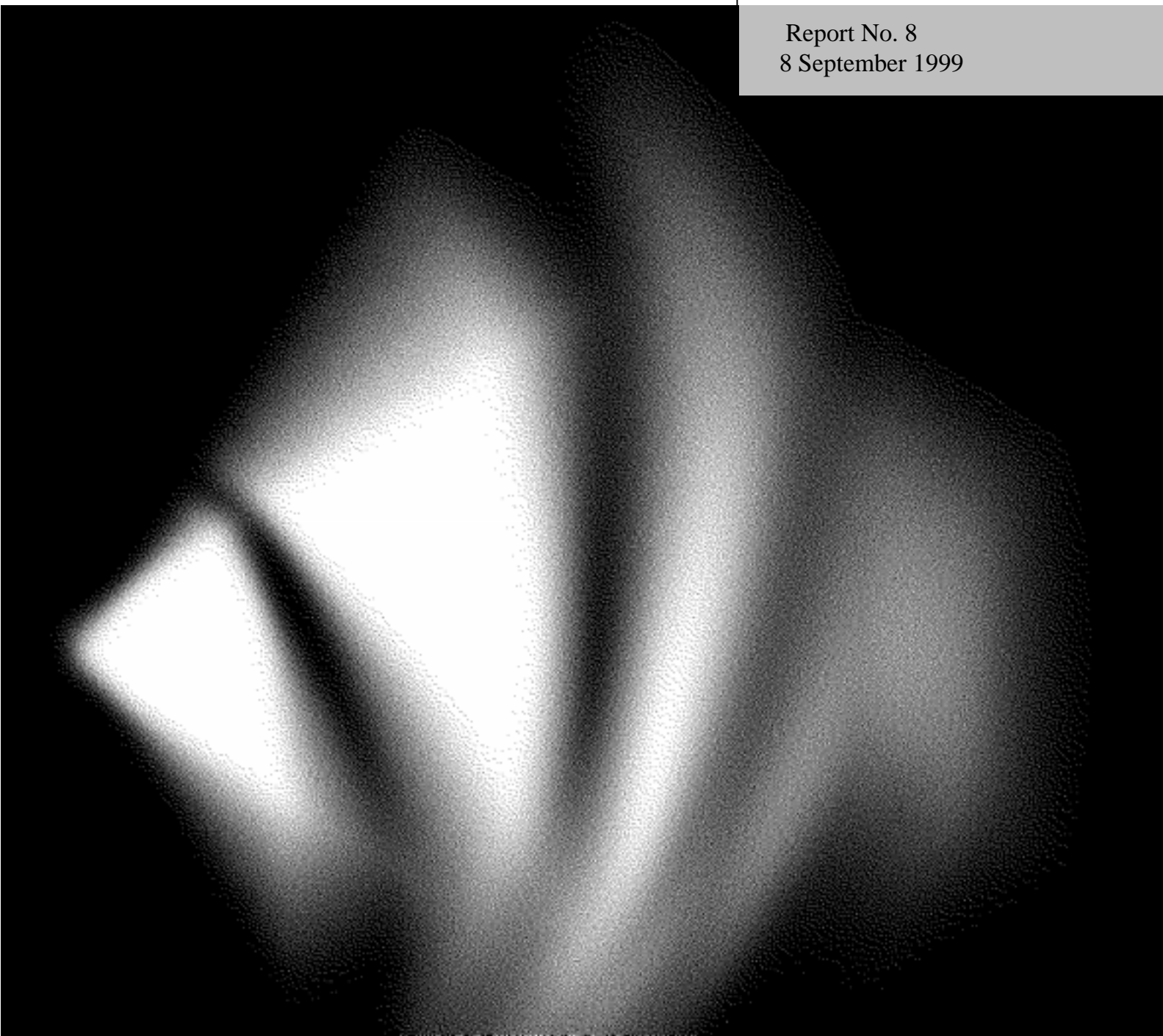




Impact of Competition Policy Reforms on Rural and Regional Australia

Inquiry Report

Report No. 8
8 September 1999



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The Productivity Commission

The Productivity Commission, an independent Commonwealth agency, is the Government's principal review and advisory body on microeconomic policy and regulation. It conducts public inquiries and research into a broad range of economic and social issues affecting the welfare of Australians.

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Terms of reference

PRODUCTIVITY COMMISSION ACT 1998

I, Peter Costello, Treasurer, under Part 3 of the *Productivity Commission Act 1998*, hereby refer the impact of competition policy reforms on rural and regional Australia for inquiry and report within twelve months of receipt of this reference. The Commission is to hold public hearings for the purpose of the inquiry, including in rural and regional Australia.

Background

The Government is proceeding with this inquiry in response to recommendations made by the House of Representatives Committee on Financial Institutions and Public Administration. The Government wishes to ensure that the benefits of increased competition in the economy flow to all Australians, including those living in rural and regional Australia, and that the implementation of competition policy promotes efficiency, economic growth and community welfare. Competition policy also recognises that there can be circumstances in which restrictions on competition may be justified where there are offsetting public benefits.

Scope of inquiry

The Commission's public inquiry should assess the impact (both transitional and ongoing) of the competition policy and related reforms introduced by the Commonwealth, State, Territory and local governments under the three intergovernmental agreements signed in April 1995 — the *Competition Principles Agreement*, the *Conduct Code Agreement* and the *Agreement to Implement the National Competition Policy and Related Reforms*. These agreements followed an Independent Committee of Inquiry into National Competition Policy that reported to Commonwealth, State and Territory Heads of Government in August 1993 (the Hilmer Report).

In undertaking the inquiry the Commission should have regard to the established economic, social, environmental, and regional development objectives of Australian governments. Consideration should be given to other influences on the evolution of markets in regional and rural Australia, including the role of international trade, foreign investment and globalisation generally.

The Commission should specifically report on:

- (a) the impact of competition policy reforms on the structure, competitiveness and regulation of major industries and markets supplying to and supplied by regional and rural Australia;
- (b) the economic and social impacts on regional and rural Australia (including on small businesses and local governments) of the changes to market structure, competitiveness and regulation flowing from the reforms and the effect of these impacts and changes on the wider Australian economy;
- (c) possible differences between regional and metropolitan Australia in the nature and operation of major markets and in the economic and social impacts of the reforms promoted by national competition policy; and
- (d) any measures which should be taken to facilitate the flow of benefits (or to mitigate any transitional costs or negative impacts) arising from competition policy reforms to residents and businesses in regional and rural Australia.

PETER COSTELLO

[Reference received on 31 August 1998]

Contents

Terms of reference	IV
Contents	V
Disclosure of interests	XIV
Acknowledgments	XV
Abbreviations and explanations	XVII
Key messages	XXII
OVERVIEW	XXIII
FINDINGS	XLIII
1 Introduction	1
1.1 Background to the inquiry	1
1.2 Defining rural and regional Australia	3
1.3 What is National Competition Policy?	5
1.4 Themes from country Australia	7
1.5 Structure of the report	14
 PART A DEVELOPMENTS IN COUNTRY AUSTRALIA	
2 Demographic changes and social indicators	17
2.1 Introduction	17
2.2 Demographic changes	18
2.3 Labour market and household income	31
2.4 Social indicators: country and city	39
3 Economic change in country Australia	47
3.1 Introduction	47
3.2 The changing nature of Australia's economy	48
3.3 Drivers of change	60

PART B THE NATIONAL COMPETITION POLICY REFORMS

4	The National Competition Policy Agreements	81
4.1	Introduction	81
4.2	Competition Principles Agreement	84
4.3	Conduct Code Agreement	90
4.4	Agreement to Implement the National Competition Policy and Related Reforms	92
5	National Competition Policy-related infrastructure reforms	97
5.1	Introduction	97
5.2	Electricity	99
5.3	Gas	118
5.4	Water	131
5.5	Road transport	159
5.6	Conclusion	168
6	Reform of public monopolies	171
6.1	Introduction	171
6.2	Progress with the reform of government monopolies	172
7	National Competition Policy and the marketing of rural products	195
7.1	Introduction	195
7.2	Application of the Trade Practices Act	198
7.3	Review of SMA legislation	199
7.4	The impacts of SMA reform under NCP	207
7.5	Managing reform at the regional level	223
8	Impact of competitive neutrality and contracting on local government	225
8.1	Introduction	225
8.2	What is competitive neutrality?	225
8.3	Commonwealth, State and Territory government approaches to competitive neutrality	227
8.4	What is competitive tendering and contracting?	229
8.5	Participants' views on competitive neutrality	230
8.6	Competitive tendering and contracting issues	238
8.7	Impact of competitive neutrality on local government	246

9	Other reforms	253
9.1	Introduction	253
9.2	NCP-related reforms	254
9.3	Other issues	272
10	Summary of impacts of National Competition Policy reforms	283
10.1	Introduction	283
10.2	Effects to date	284
10.3	Longer-term regional impacts of NCP reforms	294
10.4	Long-run NCP impacts in the context of broad economic forces	306
 PART C IMPROVING NCP AND ACHIEVING BETTER OUTCOMES FOR COUNTRY AUSTRALIA		
11	Improving the operation of National Competition policy	313
11.1	Introduction	313
11.2	Why is improved understanding of NCP important?	314
11.3	What NCP does not require	316
11.4	NCP and State and Territory governments	317
11.5	Measures to improve understanding of NCP	321
11.6	Operation of the ‘public interest’ provisions of NCP	322
11.7	Modifying NCP	332
11.8	The role of the National Competition Council	339
12	Achieving better outcomes for country Australia	343
12.1	Introduction	343
12.2	The nature of markets in country Australia	344
12.3	Community and universal service obligations	350
12.4	Provision of services to country Australia	355
12.5	Regional development	361
13	Coping with change	371
13.1	Introduction	371
13.2	Change and adjustment	372
13.3	Rationales for further adjustment assistance	377
13.4	Possible forms of specific adjustment assistance	385
13.5	Managing reform implementation	389
13.6	Concluding comments	393

APPENDIXES

A	Conduct of the inquiry	399
A.1	Introduction	399
A.2	List of submissions	400
A.3	Participants at public hearings	406
A.4	Locations at which meetings were held	408
A.5	Consultations and regional discussions	409
B	Technical notes for decomposition analysis of population growth	423
B.1	Data	423
B.2	Results	428
C	Legislation reviews and the marketing of rural products	435
C.1	Commonwealth	436
C.2	New South Wales	439
C.3	Victoria	442
C.4	Queensland	444
C.5	Western Australia	447
C.6	South Australia	449
C.7	Tasmania	450
C.8	Australian Capital Territory	451
C.9	Northern Territory	451
	References	453

BOXES

1.1	Examples of government policies potentially affecting country Australia	7
3.1	Structural change indexes	56
3.2	Changes in a rural Australian community: Finch Hatton, Queensland	62
3.3	Structural adjustment — a Canadian perspective	63
3.4	The growth of tourism	65
3.5	Local impacts of mining	72
4.1	Factors taken into account as ‘public benefits’	92
5.1	Gas deregulation in Western Australia	128
5.2	Regional benefits of the Wodonga–Wagga Wagga pipeline	129

5.3	Water property rights — a comparison of the New South Wales and Victorian systems for the provision of water entitlements	147
5.4	CoAG reforms and water caps — results from modelling done in the ‘ <i>Water and the Australian Economy</i> ’ study	156
5.5	Differing regulatory regimes for road transport	160
6.1	Standard of telecommunications services	183
7.1	Authorisation and the Australian Wool Exchange Limited	199
7.2	Progress with reviews of agricultural marketing legislation	200
7.3	Recommendations of the Hawker Committee	203
7.4	New South Wales rice review	204
7.5	The Queensland sugar review	205
7.6	State dairy reviews	206
7.7	The potato police and other tales from Western Australia	213
8.1	Thresholds suggested by jurisdictions for adopting corporatisation of government businesses	228
8.2	Competitive neutrality and community service obligations provided by local government	234
8.3	Examples of participants’ comments on gains from CTC	242
9.1	Review of Victorian legislation governing optometrists	268
9.2	Applications for access to infrastructure	269
11.1	What NCP does not require	316
11.2	Senate Select Committee views on the ‘public interest’ test	325
11.3	Weighing up costs and benefits and the ‘public interest’ test	327
12.1	ACCC action against anti-competitive behaviour	350
13.1	The ‘safety net’ — income support and training measures	375
13.2	Issues associated with the provision of adjustment assistance	381
13.3	Labour adjustment in railways	386
13.4	NSW Forest Industry Structural Adjustment Package	388

FIGURES

2.1	Proportion of Australia’s population living outside the capital cities, selected years, 1906–96	18
2.2	Areas of population change in Australia, 1976–97	21
2.3	Small towns which decreased or increased by 10 per cent or more, 1986–96	23
2.4	Age profile of cities, towns and rural areas, 1996	29
2.5	Average unemployment rates in capital cities and balance of country, selected years, 1978–99	33

2.6	Post-school educational qualifications, 1996	34
2.7	Gross farm product and gross domestic product at 1989-90 prices, 1959-60 to 1996-97	38
2.8	Index of relative socio-economic disadvantage, 1996	40
3.1	Sector shares of GDP, selected countries, 1970-94	49
3.2	Export shares (by value), Australia, 1974-75 to 1996-97	50
3.3	Employment shares by sector, Australia, 1966-67 and 1996-97	51
3.4	FDI in Australia, and Australian direct investment abroad, 1984-85 to 1997-98	53
3.5	Foreign investment flows by industry, 1991-92 to 1997-98	54
3.6	Regional sources of changes in employment, 1986-96	55
3.7	Structural change in city and country regions, 1981-96	57
3.8	Structural change and employment growth, 1981-96	58
3.9	Structural change indexes in selected countries, 1971-92	60
3.10	Aggregate MFP, and labour productivity growth by sector, 1981-82 to 1997-98	66
3.11	Farmers' terms of trade, 1955-56 to 1996-97	67
3.12	Contributions to average annual output growth for agriculture, 1974-75 to 1995-96	68
3.13	Number of agricultural establishments and average size, 1960-61 to 1985-86	68
3.14	Interest costs as a proportion of total cash costs and the debt to capital ratio for the average broadacre farm, 1983-84 to 1997-98	69
3.15	Mining industries' terms of trade, 1969-70 to 1994-95	70
3.16	Contributions to average annual output growth for mining, 1974-75 to 1995-96	71
3.17	Mining output by State (all minerals), 1974-75 to 1996-97	71
3.18	Growth in output and labour inputs for key service industries, 1985-86 to 1997-98	73
5.1	Real price index for residential and commercial/industrial electricity users, Australia 1991-92 to 1997-98	105
5.2	Loss of supply per customer, 1991-92 to 1996-97	107
5.3	Average outage duration by jurisdiction, 1991-92 to 1996-97	108
5.4	Employment in the electricity supply industry, 1985 to 1997	109
5.5	Average price (residential) of selected electricity suppliers in New South Wales (1995-96 and 1996-97) and Queensland, 1994-95 to 1996-97	111

5.6	Average price (commercial/industrial) of selected electricity suppliers in New South Wales (1995-96 and 1996-97) and Queensland (1994-95 to 1996-97)	112
5.7	Average loss of supply per customer, for selected regional and urban suppliers of electricity in NSW (1995-96 and 1996-97), Victoria (1995 to 1998) and Queensland (1994-95 to 1996-97)	114
5.8	Average outage duration for selected regional and urban suppliers of electricity in NSW (1995-96 and 1996-97), Victoria (1995 to 1998) and Queensland (1994-95 to 1996-97)	116
5.9	Average total employment of selected regional and urban electricity suppliers in NSW (1995-96 and 1996-97) and Queensland (1994-95 to 1996-97)	117
5.10	Expansion of the gas pipeline network from 1990 to 2004	125
5.11	Gas industry performance indicators, 1992 to 1997	129
5.12	Total employment of six major distributors in the gas industry, 1992 to 1997	130
5.13	Real freight rates — Melbourne to Sydney 1964 to 1998	165
6.1	Full-time employment in the rail industry, capital cities and other areas, 1986 to 1998	175
6.2	Faults repaired by Telstra within one working day, March 1993 to June 1998	180
6.3	Telstra fault repair performance, 1 January to 31 December 1998	181
6.4	Telecom/Telstra employment, 1987-88 to 1997-98	184
6.5	Indices of Telecom/Telstra metropolitan and non-metropolitan employment, 1992 to 1999	185
7.1	Sugar prices, March 1996 to March 1999	218
10.1	Job gains and losses in infrastructure industries, 1988-97	292
10.2	Estimated regional output effects of selected NCP reforms	303
10.3	Estimated long-run effects of NCP on regional employment and gross regional product per person employed	304
10.4	Estimated employment effects from NCP reforms and over the decade to the mid-1990s	309
B.1	Map of Australia by Statistical Local Areas, shaded by region	424
B.2	Decomposition of differences in population growth rates	429
B.3	Decomposition of differences in employment growth rates	432

TABLES

2.1	Proportion of Australia's population living outside the capital cities, by State/Territory, 1996	18
2.2	Australia's population by size of centre, selected years, 1971–96	19
2.3	Annualised population growth rates for Australia's largest regional municipalities, ranked by growth from 1976–96	22
2.4	Locations experiencing demographic change of more than 10 per cent over the period 1986–96	24
2.5	Australia's population by location and size of centre, 1971 and 1996	26
2.6	Selected sponge cities in Australia	27
2.7	Population and population growth of Dubbo and surrounding municipalities, 1976–97	28
2.8	Employment status of primary family reference person, 1996	32
2.9	Level of qualifications of those working in agriculture, 1995	35
2.10	Average household income by statistical division, 1981–96	36
2.11	General practice consultations per capita, 1995–96	42
2.12	Distribution of primary-care medical practitioners, registered by State and Territory, 1995	43
2.13	Increase in suicide rates from 1964 to 1993, males aged 15–24	45
3.1	Employment in city and country regions by industry sector, 1981–96	52
3.2	Export orientation of Australia's agricultural sectors, 1996–97	67
3.3	Export orientation of Australia's mining sectors, 1996–97	70
3.4	Productivity growth in key service industries, 1985–86 to 1995–96	73
4.1	Progress of legislative reviews by jurisdiction	87
4.2	Prohibited trade practices	90
4.3	Estimated National Competition Policy payments	93
5.1	Status of jurisdictions' progress in implementing the electricity reforms, as at 30 June 1999	102
5.2	Average level of cost recovery in New South Wales, 1994–95	113
5.3	Status of jurisdictions' progress in implementing gas reforms, as at 30 June 1999	121
5.4	Expansion of the gas pipeline network — main cities and towns etc connected between 1990 and 2004	124
5.5	Status of jurisdictions' progress in implementing the urban and rural water reforms, as at 30 June 1999	136
5.6	Status of jurisdictions' progress on NCP road transport reforms, as at 30 June 1999	163
6.1	Use of selected information technology by farms, March 1998	188

6.2	Main reasons for farms with a computer not having a modem, 1996-97	188
6.3	Australia Post retail facilities by type and location, 1993-94 to 1997-98	192
7.1	Statutory marketing authorities in Australia	197
7.2	Results of survey into retail prices of milk in New South Wales	219
9.1	Trading hour restrictions for general retail stores, January 1999	255
9.2	Number of major bank branches in Australia, 1993 and 1996	278
10.1	Cost and price changes in infrastructure services subject to National Competition Policy reforms	289
10.2	Service quality indicators	291
10.3	Direct job losses by selected infrastructure service providers	292
10.4	MONASH-RR regions	296
10.5	Estimated macroeconomic effects of selected NCP reforms	299
10.6	Estimated regional impacts of NCP reforms	301
10.7	Estimated relocation of jobs from NCP relative to employment changes over the decade to the mid-1990s	307
12.1	Line and call conveyance costs by geographic area	352
12.2	Horizontal fiscal equity, 1997-98	359
12.3	Financial Assistance Grants entitlements for selected New South Wales local government authorities, 1997-98	360
13.1	Assistance over and above the tax/transfer system?	384
B.1	List of Statistical Local Areas by region	425
B.2	Decomposition of differences in population growth rates, 1986–96	434
B.3	Decomposition of differences in employment growth rates, 1986–96	434
C.1	Reviews of Commonwealth primary industries legislation	437
C.2	Commonwealth legislation not included in the review schedule	437
C.3	Reviews of New South Wales statutory marketing legislation	440
C.4	Reviews of Victorian statutory marketing legislation	443
C.5	Reviews of Queensland statutory marketing legislation	445
C.6	Reviews of Western Australian statutory marketing legislation	448
C.7	Reviews of South Australian statutory marketing legislation	449
C.8	Reviews of Tasmanian statutory marketing legislation	450
C.9	Review of ACT statutory marketing legislation	451

Disclosure of interests

The *Productivity Commission Act 1998* specifies that where Commissioners have or acquire interests, pecuniary or otherwise, that could conflict with the proper performance of their functions during an inquiry they must disclose the interests.

Professor Judith Sloan has advised the Commission that she is a director of the following companies:

- Santos Ltd;
- Mayne Nickless Ltd; and
- SGIO Insurance Ltd.

Acknowledgments

In conducting its inquiry, the Commission has benefited greatly from the participation of many people and organisations in rural and regional Australia. The Commission is grateful to all those who provided written submissions or gave freely of their time to discuss issues in various forums.

Commissioners would also like to express their gratitude for the dedicated assistance of the inquiry team on what was a wide-ranging task.

_____ _____

Abbreviations and explanations

Abbreviations

AAA	the Commonwealth Government's Agriculture - Advancing Australia policy
ABARE	Australian Bureau of Agricultural and Resource Economics
ABB	Australian Barley Board
ABC	Australian Broadcasting Corporation
ABS	Australian Bureau of Statistics
ACA	Australian Communications Authority
ACCC	Australian Competition and Consumer Commission
ACSWC	Australian Catholic Social Welfare Commission
ACT	Australian Capital Territory
AFFA	Commonwealth Department of Agriculture, Fisheries and Forestry – Australia
AGA	Australian Gas Association
AIHW	Australian Institute of Health and Welfare
AMPC	Australian Meat Processors Corporation
APIA	Australian Pipeline Industry Association
ARMCANZ	Agricultural and Resource Management Council of Australia and New Zealand
ARWA	Association of Rural Water Authorities
ATC	Australian Transport Council
ATMs	automatic teller machines
AWB	Australian Wheat Board
AWEX	Australian Wool Exchange Limited
BIE	Bureau of Industry Economics
CAN	Customer Access Network

CAP	Common Agricultural Policy
CBD	central business district
CCT	compulsory competitive tendering
CGC	Commonwealth Grants Commission
CIE	Centre for International Economics
CN	competitive neutrality
CoAG	Council of Australian Governments
CPA	Competition Principles Agreement
cpl	cents per litre
CSG	customer service guarantee
CSO	community service obligation
CTC	competitive tendering and contracting
CWA	Country Women's Association
DoLG	Department of Local Government (NSW)
DLWC	Department of Land and Water Conservation (NSW)
DNRE	Department of Natural Resources and Environment (Vic)
EFTPOS	electronic fund transfer point of sale
EPAC	Economic Planning Advisory Council
ESAA	Electricity Supply Association of Australia
EVAO	estimated Value of Agricultural Output
FAG	Financial Assistance Grants
FBT	fringe benefits tax
FDI	foreign direct investment
FIFO	fly-in, fly-out
GATT	General Agreement on Trade and Tariff
GBE	government business enterprise
GDP	gross domestic product
GPWA	Grain Pool of WA
GST	goods and services tax
GTE	government trading enterprise

HFE	horizontal fiscal equity
IAC	Industries Assistance Commission
IC	Industry Commission
IPART	Independent Pricing and Regulatory Tribunal
KWh	kilowatt hours
kt	kilotonne
LGASA	Local Government Association of South Australia
MDBC	Murray–Darling Basin Commission
MFP	multi-factor productivity
MIA	Murrumbidgee Irrigation Area
MIACHA	MIA Council of Horticultural Associations
ML	megalitre
MLA	Meat and Livestock Australia
MLA	Member of the Legislative Assembly
MP	Member of Parliament
Mt	megatonne
mu	metropolitan urban
MWh	megawatt hours
NARGA	National Association of Retail Grocers of Australia
NCC	National Competition Council
NCP	National Competition Policy
NEM	National Electricity Market
NFF	National Farmers’ Federation
NHT	Natural Heritage Trust of Australia
NLP	National Landcare Program
nmu	non-metropolitan urban
NRTC	National Road Transport Commission
NT	Northern Territory
NSW	New South Wales
NVI	National Vegetation Initiative

OECD	Organisation for Economic Co-operation and Development
ORGV	Office of the Regulator General of Victoria
PC	Productivity Commission
PFE	Public Financial Enterprise
PGA	Pastoralists' and Graziers' Association of Western Australia
PIRSA	Primary Industries and Resources South Australia
PTE	Public Trading Enterprise
QDLRC	Queensland Dairy Legislation Review Committee
QAL	Queensland Alumina Limited
Qld	Queensland
QSC	Queensland Sugar Corporation
RAC	Rail Access Corporation
RAS	Rural Adjustment Scheme
RBA	Reserve Bank of Australia
RDO	Regional Development Organisation
RFAs	Regional Forest Agreements
RRMA	Rural, Remote and Metropolitan Area classification
SA	South Australia
SBS	Special Broadcasting Services
SCARM	Standing Committee on Agriculture and Resource Management
SCIs	structural change indexes
SCNPMGTE	Steering Committee on National Performance Monitoring of Government Trading Enterprises
SCT	Specialised Container Transport
SCOT	Standing Committee on Transport
SD	Statistical Division
SIRWP	Sugar Industry Review Working Party
SLAs	statistical local areas
SMA	statutory marketing authority
SRA	The State Rail Authority

SRIDC	Southern Riverina Irrigation Districts' Council
SSDs	Statistical Sub Divisions
STD	subscriber trunk dialling
t	tonne
Tas	Tasmania
TCF	textiles, clothing and footwear
TWh	terawatt hours
TOR	terms of reference
TPA	Trade Practices Act
trans.	transcript
USO	universal service obligation
VET	vocational and educational training
Vic	Victoria
WA	Western Australia
WEA	Wheat Export Authority
WI	Wool International
WTO	World Trade Organisation

Explanations

Bolds	Bolds in the body of the report are highlighted in standard text, as this is.
Findings	<i>Findings in the body of the report are paragraphs highlighted using italics, as this is.</i>
Recommendations	<i>Recommendations in the body of the report are highlighted using bold italics with an outside border, as this is.</i>

Key Messages

- Communities in rural and regional Australia are being affected by a range of beneficial and adverse influences, of which National Competition Policy (NCP) is one.
- Most of these influences are of a long-term nature and largely beyond government control (eg declining terms of trade for agriculture, changes in technology and in consumer tastes).
- Such long-term factors are mainly responsible for the declining share of primary industries in Australia's economy and the associated drift of population away from inland country areas.
- NCP has become a scapegoat for some of the effects of these broader influences.
- Governments should take steps to improve community understanding of NCP, including clarification of how matters of wider public interest, and social considerations in particular, are to be taken into account in its implementation.
- While there are costs associated with implementing NCP, it will bring net benefits to the nation, and to rural and regional Australia as a whole over the medium term. That said, the early effects have favoured metropolitan areas more than rural and regional areas.
- There is likely to be more variation in the incidence of benefits and costs of NCP among country regions than in metropolitan areas.
- Where adjustment pressures develop rapidly and are regionally concentrated, governments may need to consider whether, in addition to generally available assistance measures, specific forms of adjustment assistance are warranted for some people in adversely affected regions.

Overview

During this inquiry, the Commission travelled widely in rural and regional Australia, holding discussions with almost 1000 people from all walks of life. Many of these people, such as local councillors and leaders of industry organisations, conveyed the views of numerous others whom they represent. In addition, the Commission received some 300 submissions and more than 100 participants provided comments on a draft of this report at public hearings. The discussions, hearings and submissions reveal a range of experiences in country areas. Some communities are doing well, but others are finding the going difficult.

Many people in country Australia see National Competition Policy (NCP) as an unprecedented outbreak of ‘economic rationalism’ which ignores important social issues and poses a threat to their way of life — adversely affecting their standard of living and the adequacy of services in country Australia.

NCP is widely perceived as being responsible for the withdrawal of government services, the demise of local businesses, the closure of country bank branches and is regarded by some as a major factor behind the population decline in parts of country Australia. NCP has also been linked to higher rates of crime, drug abuse, suicide and the creation of a demographic ‘hole’ — a shortage of young, motivated people needed to maintain the social fabric of towns through involvement in community,

Some views on National Competition Policy

I believe the Hilmer competition policy ... acts like a giant vacuum cleaner sucking people out of the bush and putting them on the shores in the seaboard. (Senator Ron Boswell, quoted by Gittins, R, ‘The bush vacuum cleaner’, *The Sydney Morning Herald*, 24 June 1998)

... competition policy is perceived to be an agent of community decline in regional and rural Australia. ... Competition policy is not seen as having delivered any major benefits. It is seen as a threat — to businesses, to properties, to livelihoods, to the overall economic base of communities. (National Party of Australia Women’s Federal Council, sub. 130, p. 6)

Manilla Shire Council views economic rationalism as one of the greatest threats to the future security and viability of rural and regional Australia. It also considers that economic rationalism is inextricably linked with implementation of competition policy. Whilst these change drivers may be instrumental in the promotion of efficiency and, perhaps, economic growth Council considers that they are destructive of community welfare. (Manilla Shire Council, sub. 86, p. 1)

sporting and other recreational activities.

A key issue for this inquiry has been to ascertain whether these views are well founded.

Many of the problems identified are indeed affecting some communities in country Australia, but the sources of these problems are less clear. The NCP reforms, agreed to by all Australian governments in 1995, interact with a range of other government policies and the diverse economic and social changes which shape Australia's growth and development more generally.

The Commission's primary task has been to investigate and report on the effects of NCP on people, businesses and communities, especially in country Australia. The Commission has looked at the effects to date and likely long-run effects on country Australia and the nation as a whole. It has sought to disentangle the effects of NCP from other sources of change. In doing so, it has considered the following questions:

- what does NCP entail and what are its effects?
- how significant is NCP relative to other factors?
- is country Australia affected more or less than metropolitan areas by NCP reforms?
- are there particular problems caused by NCP which need to be addressed?
- is there a need to supplement existing policies which help country communities to cope with any such problems?

To address these questions, it is necessary to examine the economic and social circumstances of country Australia and to consider what is driving them.

How is country Australia faring?

A common perception is that Australia is an increasingly urbanised society, with country areas continuing to lose population. Australia's emergence as a highly urbanised society is not, however, a recent phenomenon. At the time of Federation, around two-thirds of the population lived outside the capital cities. From that point, people began drifting into the capital cities. By 1971, the proportion of people living outside capital cities had fallen to just over one-third. Subsequently, that proportion has been relatively stable.

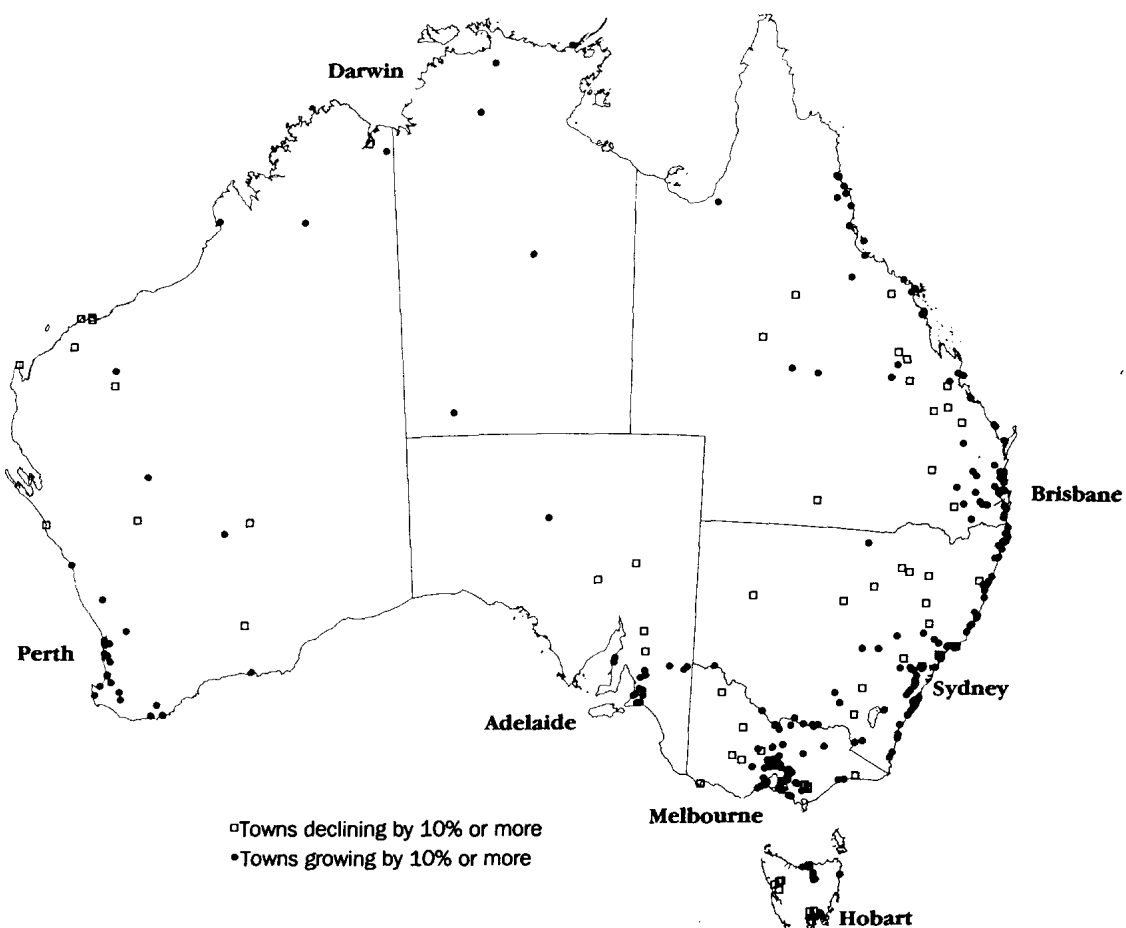
Population growth is concentrated now in or near coastal zones, most notably in Queensland and New South Wales and in the south-west of Western Australia, where horticulture, tourism and other service activities are expanding.

Many inland provincial cities have also grown, but often at the expense of nearby smaller towns. This 'sponge city' phenomenon, whereby people from small outlying communities are drawn to larger regional centres, has been facilitated by improved transport links, more reliable vehicles and the availability of a wider range of, and cheaper, goods and services in larger centres.

There is also a common perception that, across the nation, small towns are withering. Yet, of the 578 towns with a population between 1000 and 20 000 in 1986, almost half grew by more than 10 per cent in the decade to 1996. Most of this growth was in coastal towns, fed in part by changing lifestyle preferences, such as the movement of retirees. The small towns which are in decline are located predominantly in inland Australia.

Economic and social indicators point to the different circumstances of people living in the cities and country regions. People in country Australia tend to have, on average, lower levels of household income, but higher levels of home ownership

Population changes in small towns, 1986–1996



and cheaper rent and mortgage payments. They also have lower levels of tertiary education but higher levels of vocational training. Country regions typically have higher mortality and suicide rates. Nevertheless, country lifestyles continue to appeal to many people.

The experiences of regions in country Australia coping with change are mixed, with some regions doing better than others. High rates of structural change do not necessarily involve employment loss. Similarly, low rates of structural change are not always associated with high employment growth. In country Australia, as well as in metropolitan areas, services have been the main source of jobs growth.

Structural change: characteristics of Australian regions

<i>High change and low employment growth</i>	<i>High change and high employment growth</i>
<ul style="list-style-type: none"> • above-average reliance on mining; • weak representation in service sector; and • employment reductions in manufacturing and mining industries. <p>(eg Lyell in Tasmania and Whyalla and Flinders Ranges/Pirie in South Australia)</p>	<ul style="list-style-type: none"> • diverse industry structures; and • sectoral employment shares close to the national average. <p>(eg Gascoyne/Carnegie and Lefroy in Western Australia and Cairns in Queensland)</p>
<i>Low change and low employment growth</i>	<i>Low change and high employment growth</i>
<ul style="list-style-type: none"> • strong orientation towards agriculture; • little change in reliance on agriculture; and • smallest shares of employment in the service sector. <p>(eg Mildura–Mallee in Victoria)</p>	<ul style="list-style-type: none"> • employment base heavily oriented towards service industries; and • less reliance on agricultural and mining-based activities. <p>(eg urbanised areas and coastal New South Wales and Queensland)</p>

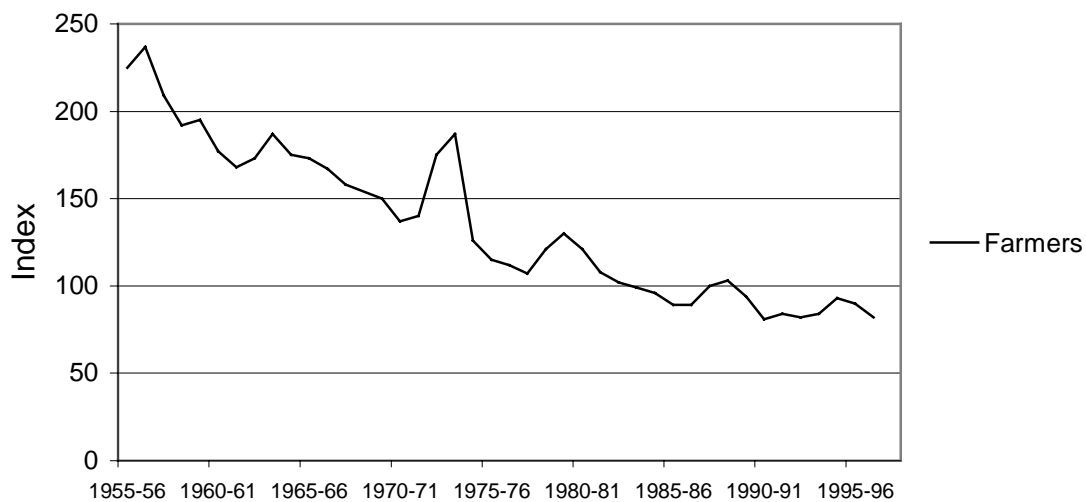
‘Drivers’ of change

Trade and foreign investment have always been important to country Australia. More recently, the increased scale and pace of globalisation have intensified adjustment pressures in some regions and created growth opportunities in others. Forces affecting the fortunes of country Australia include:

- technological advances, such as improved transport and telecommunications, increased mechanisation of farming, agronomic developments and adoption of new mining techniques;
- a downward trend in the world prices for agricultural commodities, which has been reflected in a decline in producers’ terms of trade;

- changes in consumer tastes, such as the decline in the demand for wool and increased expenditure on tourism, which have had markedly different regional effects;
- changes in lifestyle, such as an increase in internal migration to coastal areas; and
- government policy changes, such as lowering trade barriers, deregulating the financial system and increased regulation to protect the environment.

Declining terms of trade for farmers^a



^a Ratio of index of prices received, in Australian dollars, to index of input prices paid.

These forces have contributed to significant changes in the composition of Australia's economic activity, with differing regional implications across country Australia. Notwithstanding the continued growth of agriculture and mining, their combined share of Australia's gross domestic product has declined from 24 per cent in 1948-49 to around 8 per cent today. This decline reflects the rapid expansion of service activities.

In response to these longer-term forces, increases in agricultural productivity have resulted in fewer, but larger, farms. In mining, adoption of new technologies has resulted in significant new investment and the discovery and development of mineral, coal, oil and gas deposits.

The current circumstances of country Australia have been influenced strongly by these broad long-term economic forces. NCP appears to have become a scapegoat for the adverse economic and social effects of these mostly unrelated forces. Indeed,

some governments submitted to this inquiry that it is not possible for NCP to have created the havoc attributed to it because most NCP initiatives are relatively recent.

It is against this backdrop that the impact of NCP needs to be assessed.

What is NCP all about?

NCP extends competition into areas of the economy which have been dominated by government monopolies, typically in the provision of infrastructure, or where competition has been restricted by legislation (eg by statutory marketing arrangements). It also extends and strengthens the coverage of trade practices legislation governing anti-competitive conduct. NCP represents the joint desire of Australian governments to deliver the benefits of competition through a national approach to competition reform. It aims not only to facilitate effective competition to promote economic efficiency and the social benefits which flow from that, but also to accommodate situations where competition conflicts with social objectives.

In practical terms, NCP consists of three agreements between the Commonwealth and all State and Territory governments.

NCP agreements

The *Competition Principles Agreement* sets out principles for reforming government monopolies, prices oversight of government businesses, reviews of legislation, access to 'essential' infrastructure facilities and placing government businesses on a competitively neutral footing with each other and private businesses.

The *Conduct Code Agreement* extends Australia's competitive conduct rules to all businesses — unincorporated businesses were previously exempt.

The *Implementation Agreement* recommits governments to earlier reforms in gas, electricity, water and road transport. It specified a program of \$16 billion in financial grants to State and Territory governments, contingent on implementation of reforms.

Improvements in the performance of government business enterprises and in the provision of infrastructure are important objectives of NCP. Past studies of government businesses identified clearly that:

- they typically suffered from poor management, excessive or inadequate capital investment and over-manning which added considerably to costs;
- the range and quality of goods and services produced often did not meet the needs of users; and
- prices frequently did not reflect the cost of supply.

These enterprises are significant suppliers of inputs, such as energy and transport services, used by the rest of the economy, country and city alike. Poor performance by them imposes a ‘tax’ on users and the economy generally.

NCP reforms to improve the performance of government businesses build on previous reforms and, in broad terms, involve structural separation of:

- competitive elements from ‘natural monopoly’ elements, to promote competition and improve regulation of natural monopolies; and
- the regulatory functions of government from the commercial operations of government businesses.

Other important measures which form part of NCP include the extension of competition rules to all businesses, regimes for access to essential infrastructure and competitive neutrality reforms. There is also an extensive program of review of legislation at all levels of government to remove anti-competitive restrictions which cannot be demonstrated to be in the ‘public interest’.

The ‘public interest’ test provides for non-economic matters (eg social welfare, regional development and environmental concerns) to be taken into account in reviews of legislation which restricts competition, in reforms of government business enterprises and in the introduction of competitive neutrality. The purpose of this test has not always been properly understood or applied. Properly conducted reviews, including careful analysis of public interest matters, can inform policy decisions and help to avoid unnecessary adjustment costs.

Some of the concerns raised with the Commission by people in country Australia about NCP reflect unease at the prospect of a loss of industry assistance or other benefits associated with anti-competitive regulation. But many concerns stem from policies which are not a requirement of NCP, even though they have similar objectives and may lead to the discretionary adoption of policies such as contracting-out and privatisation.

What NCP does not require

- | | |
|-------------------------------------|---|
| • asset sales and privatisation; | • cutting the size of the public sector; |
| • compulsory competitive tendering; | • local government amalgamations; |
| • contracting out; | • reductions in welfare and social services; or |
| • financial market deregulation; | • removing community service obligations. |
| • industrial relations reforms; | |

These misunderstandings are not surprising — the aims and mechanisms of NCP, and its relationship to other policies, have generally not been well communicated to the people most likely to be affected by them. The fact that, in some areas of NCP (eg water reform, competitive neutrality and reviews of statutory marketing arrangements), implementation has proceeded slowly, at differing speeds and with variations in guidelines in different jurisdictions, has compounded this problem.

This lack of adequate information has fuelled serious concerns about many reform measures in country Australia and allowed NCP to be misrepresented. For example, a government may cite NCP as the basis for a decision to contract work in a way which precludes local community participation. Such a decision, however, is a discretionary policy choice by the government concerned, not a requirement of NCP.

The Commission sees a need for a significantly improved community understanding of NCP.

RECOMMENDATION 1

All governments should take steps to ensure that the information they provide about their National Competition Policy undertakings is:

- *accurate in terms of both its content and relationship to other policies; and*
- *publicly available in a readily accessible form and is provided to those implementing, and those most likely to be affected by, National Competition Policy reforms.*

RECOMMENDATION 2

All governments should publish and publicise guidelines which:

- *outline the purpose and scope of the ‘public interest’ provisions of the Competition Principles Agreement; and*
- *provide guidance on how the provisions should be interpreted and applied.*

The common set of basic principles for application of the ‘public interest’ test which is intended to be developed jointly by governments also should be published and disseminated widely.

(Chapter 11, pp. 321, 328)

Consistent with the need for a better understanding of NCP, fears could be allayed if panels conducting reviews of major legislation were given clearer operational guidelines. Furthermore, major reviews of anti-competitive legislation in a

particular State should have regard to possible effects on Australians as a whole, not merely those on people of the State in question.

RECOMMENDATION 3

Governments should require major legislation reviews to go further than simply determining compliance or otherwise with National Competition Policy principles. Reviews should be based on genuine public input, be conducted in a transparent manner, outline the likely distribution of costs and benefits, and inform interested parties why and how reform, or maintenance of the status quo, will lead to superior outcomes and performance than the alternatives.

RECOMMENDATION 4

In the case of reviews of anti-competitive legislation which may have significant impacts extending across jurisdictions, the benefits and costs should be weighed in terms of the interests of Australians as a whole.

(Chapter 11, pp. 322, 330)

There is provision under NCP for the National Competition Council (NCC) to conduct reviews of Commonwealth or nationally significant State legislation. A possible conflict of interest for the NCC may arise here because the NCC is also responsible for monitoring each jurisdiction's compliance with their NCP commitments and for making recommendations to the Commonwealth Treasurer on competition payments. It would be more appropriate for reviews of Commonwealth legislation (and nationally significant legislation reviews) to be conducted by bodies which are seen to be at arm's length from NCP assessment processes.

RECOMMENDATION 5

The National Competition Council should no longer be asked to conduct legislation reviews.

(Chapter 11, p. 341)

Some participants, including some governments, argued that certain NCP reforms are being implemented too quickly.

Control of NCP rests with governments and they have used fora and processes to consider and, where necessary, modify specific implementation schedules. The evidence suggests that these procedures are working. The review of NCP by the Council of Australian Governments, which is to take place at some time after April 2000, could consider such issues.

RECOMMENDATION 6

At this juncture, there should be no across-the-board extension of the National Competition Policy target dates.

(Chapter 11, p. 335)

Structural reform of public monopolies, particularly in infrastructure areas where market power is an issue, has been accompanied by the creation of new regulatory agencies, and a widening role for existing regulatory agencies under NCP. In view of the importance of these agencies in achieving benefits from NCP, the Commission considers it appropriate that they be monitored and reviewed periodically.

RECOMMENDATION 7

All jurisdictions should ensure that their regulatory agencies responsible for the oversight of National Competition Policy-related reforms are subject to periodic independent review to ensure that they are performing appropriately.

(Chapter 11, p. 339)

Country and metropolitan effects of NCP

There are a number of intractable problems in assessing, in any comprehensive way, the benefits and costs of NCP. In large measure, this reflects the problems involved in isolating the influence of a specific, but wide-ranging, set of policy reforms from the array of other factors which affect economic and social conditions.

Notwithstanding these difficulties and the limited progress in some reform areas, it is possible to observe some significant impacts of NCP in specific sectors, such as those stemming from infrastructure reforms. While some broad trends are evident, there is considerable variation between reforms and between jurisdictions. For some reforms, there appear to be different effects in country and metropolitan areas.

Costs and prices

Costs and prices are affected by many factors unrelated to NCP, including technological changes and shifts in consumer preferences. Even so, there is

evidence of improved productivity from NCP reforms, leading to reductions in costs and prices across most infrastructure services which have been subject to competition reforms. These include electricity, gas, rail, ports and telecommunications, all of which are important inputs to other industries throughout the economy, including those in country areas. At the same time, prices of some services have risen to reflect more closely the costs of their provision.

To date, many of these reforms have produced greater cost reductions for large rather than small businesses, and for business users rather than residential customers in both metropolitan and country areas. Benefits are expected to spread to smaller users over time, although prices for some users will remain dependent upon the maintenance of community service obligations. Furthermore, the improved competitiveness of businesses which supply smaller regional firms and consumers is likely to be of indirect benefit to country communities. Costs and prices are likely to be reduced in those communities, and output and employment increased.

Customers in most States have had substantial reductions in electricity prices in real terms during the 1990s. Since the establishment of the national electricity market, prices have fallen further, although some question the sustainability of such low prices. In the case of gas, country Australia has benefited from the extension of the gas network and associated opportunities for existing and new business, as well as

Illustrative cost and price changes

<i>Reform area</i>	<i>Cost/price change</i>	<i>Period/date</i>	<i>Markets affected</i>
	%		
Electricity	↓16	1991-92–1997-98	Australia — real (inflation adjusted) average prices all customers
	↓22	1991-92–1997-98	Australia — real average prices all commercial/ industrial users
	↓3	1991-92–1997-98	Australia — real average prices all residential users
Gas	↓43	1992–1997	Six major distributors — real controllable costs
	↑7	1991-92–1996-97	Vic — real prices for residential customers
	↓22	1994–1998	Australian gas prices — industrial and residential
Water	↓30	1991-92–1996-97	NSW — real prices for metropolitan customers
	↓10	1991-92–1996-97	Vic — real prices for metropolitan customers
	↑8	1991-92–1996-97	Tas — real prices for metropolitan customers
Rail	↓40	1991-92–1996-97	Freight rates on the Melbourne to Perth rail route
	↓16	1991-92–1996-97	National rail freight rates (in real terms)
Ports	↓23	1991-92–1996-97	Port authority charges
Telephone	↓25	1991-92–1996-97	Subscriber trunk dialling calls
Postal	↓9	1991-92–1996-97	Australia Post — real price of posting a standard letter

for households.

Water reforms are a more complicated area. Because water is relatively scarce in some regions of Australia, and given the widespread incidence of cross-subsidies between different users, some price rises have occurred. There is no clear picture yet on costs and prices of rural irrigation services. In some regions, the introduction of tradable water entitlements is allowing water to be allocated to higher value uses, with significant benefits for sellers and purchasers. In others, this element of reform is proving difficult.

Fears exist that the agreed reform principles for investment in new rural water supply schemes and extensions to existing schemes could limit worthwhile regional development. Given the large expenditure involved, it is important that properly conducted benefit–cost studies of such schemes be published, and that the nature and magnitude of any social and environmental benefits and costs be clearly identified.

One issue which may arise from this process relates to the financing of these investments. NCP requires that the total costs of new water infrastructure be fully recouped over the economic life of the project. However, NCP recognises that early users of such infrastructure should not be expected to bear all of the large initial capital costs. Moreover, operating losses will be usual in the early years as development is undertaken, and do not in themselves invalidate the possible long-term net benefits.

RECOMMENDATION 8

All benefit–cost studies of major new water infrastructure investments should be publicly available and clearly identify the nature and magnitude of any social and environmental benefits and costs.

(Chapter 5, p. 145)

It is difficult to determine cost and price effects of changes to statutory marketing arrangements because many reviews have not yet been completed. As the arrangements typically were designed to assist some rural producers, review outcomes which lead to the dismantling of such arrangements will disadvantage some, though not all, producers.

In some instances, the impact on producers may be large and regionally concentrated, and could pose adjustment difficulties for affected communities. At the same time, users and consumers in country and metropolitan areas are likely to gain.

In the case of local government, it is too early for the effects of NCP reforms to have emerged fully. As a result of the requirement that councils review their operations to comply with competitive neutrality principles, many have developed better information systems and achieved cost savings from improved management of business activities. This pattern applies in country areas as well as in the cities. For some smaller rural shires, however, the up-front transitional costs could outweigh any potential long-term benefit. Efforts by State governments to inform councils of how to comply with these requirements should help to avoid such outcomes.

NCP does not prohibit the provision of subsidised services for country or metropolitan communities. It seeks to have them identified, costed and provided in a transparent manner so that they can be evaluated against other social priorities.

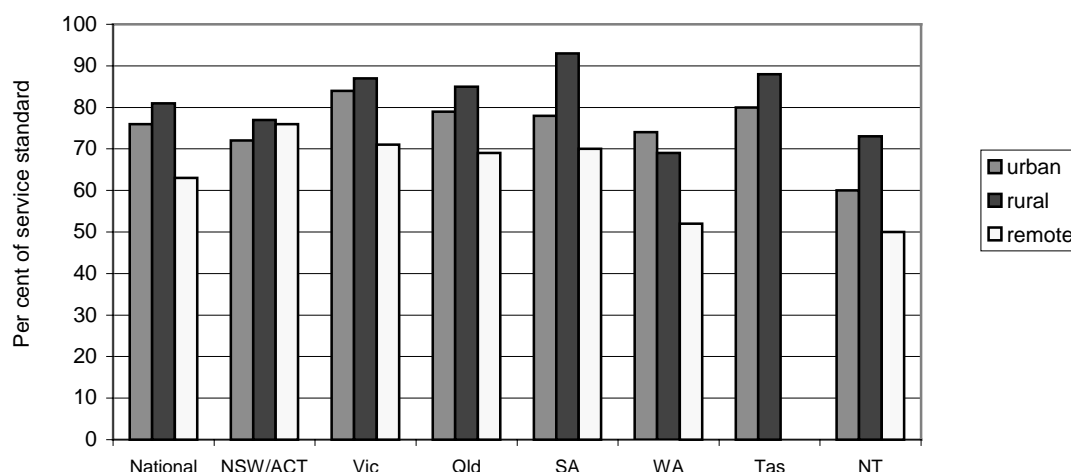
This increased transparency clearly involves the risk that subsidies will be reduced or discontinued. Indeed, as a result of the identification of such services under legislative reviews, some governments have moved away from cross-subsidies to more 'cost-reflective' pricing and direct subsidies to selected groups. This is a matter for political resolution in the jurisdiction concerned. NCP should not be used as an excuse by governments to abrogate their responsibilities for the provision of adequate services to country communities.

Service quality

The available evidence on the quality of service provision suggests different outcomes in different areas:

- Telstra's connection service for new country customers has improved to a level above that for metropolitan business customers, but is still below that for metropolitan residential customers;
- since the introduction in January 1998 of minimum service standards which vary by geographic area, the fault repair service provided to Telstra's customers in remote areas has been relatively poor, but rural customers have generally fared better than urban customers;
- indicators of Australia Post's service standards and quality, including the number of retail outlets, remained high over the period 1991-92 to 1996-97;
- in New South Wales and Victoria, for instance, loss of electricity supply and average duration of outage have generally been reduced for urban customers, but the trend for country Australia is unclear; and

Telstra's fault repair service, 1998



-
- in some States, urban water reforms have resulted in generally improved levels of service and improvements in the quality of water delivered. There is also evidence of reduced waste and increased attention to environmental allocations.

Jobs in country Australia

Between 1981 and 1996, employment in country Australia increased by 22 per cent to 2.32 million — a similar proportional increase to that which occurred in metropolitan areas.

That said, the early direct effects of NCP reforms on employment appear to have been adverse. To some extent, this reflects the removal of overmanning which had developed while government business enterprises enjoyed monopoly status or faced weak incentives to perform efficiently. As the broader effects of the reforms work to expand the nation's economy, the employment picture is likely to improve, but regional outcomes will differ. The early direct effects include:

- between 1992 and 1997, employment in regional and urban electricity supply was reduced by around 23 000 employees, or 38 per cent. Some of this fall was offset by increased employment of contractors;
- between 1992 and 1997, six major gas distributors reduced employment by 3400 jobs, some 42 per cent of their workforce. The majority of those losses were in metropolitan areas. Some have been offset by the increased contracting-out of services and work associated with the expansion of gas networks into country Australia;

-
- the closure of railway workshops in country areas led to a substantial loss of local employment in communities such as Port Augusta. In the decade to 1998, rail employment in capital cities was reduced by 44 per cent. In other areas, it was reduced by 73 per cent; and
 - labour shedding in telecommunications has also been occurring for some time — reflecting the uptake of new technology as well as reduction of overmanning. In the decade to 1997, Telecom/Telstra employment declined by 18 per cent. Part of this has been offset by employment creation in new service providers. There is no evidence that labour shedding has been proportionately higher in country areas than in metropolitan centres.

Among local governments in country Australia, there is a widely held view that the introduction of competitive neutrality will mean a loss of local jobs to private businesses outside the area, thereby compounding the loss of activity in vulnerable communities. Most concerns relate to local councils' losing bids for State contracts (especially roadworks) — but this is primarily a contracting-out, rather than NCP, issue. Some rural councils have used the 'public interest' provisions of NCP to retain certain services in-house in order to preserve local employment. In these circumstances, job losses resulting from contracting-out would need to be balanced against the benefits of having council work performed at lower cost, which can lead to lower rates and/or expanded services.

Three other issues affecting the economic and social conditions of country Australia, though essentially not part of NCP, were of concern to participants — the growth in market share of major supermarkets, bank branch closures and the possible effects of deregulation in the petroleum industry.

Evidence available to the Commission suggests that major supermarket chains have been responding more effectively than smaller retail stores to customers' preferences. They have provided more convenient access to a wider range of goods and services, often at lower prices, as trading hours have expanded. This has been at the expense of business opportunities for some traditional small retailers. At the same time, new opportunities have arisen for efficient suppliers of fresh foods and for other retailers.

Bank branch closures have been part of the decline of some small country towns. The spread of newer bank technologies and the deregulation of the financial system have reduced the demand for and supply of traditional banking services and seen the emergence of new financial services and new ways of providing traditional services. While benefiting many, it has disadvantaged some, particularly people reliant on traditional banking services in those small rural communities where all branches have been closed and only of limited range of replacement services have emerged.

The deregulation of the petroleum industry, which is currently being implemented, is intended to increase competition and benefit motorists. This has happened already in some areas, with the advent of independent petrol retailers such as Woolworths bringing about reductions in petrol prices in country and metropolitan areas. As in the case of bank branch closures, some small country communities will be adversely affected, in terms of local employment and convenience, by the closure of service stations.

Assessing longer-term effects

In addition to the identifiable direct initial impacts, NCP reforms will have enduring economy-wide effects on output, incomes and employment. Using the MONASH regional economic model, the Commission has sought to illustrate these effects, and also the possible long-term implications for metropolitan and country regions of the NCP reforms. Such models cannot depict with precision the actual effects on small regions of policy changes as broad-ranging and complex as the NCP. Nonetheless, modelling can provide some insights about possible results, especially flow-on or indirect effects.

The model estimates that, in the long-term, NCP is likely to mean that national output will be in the order of 2.5 per cent higher than otherwise — an amount equivalent to almost one year of economic growth. This is less than was estimated by the Industry Commission in the lead-up to the 1995 NCP agreement, largely because NCP reforms are less extensive than the list of possible reforms modelled at that time.

The model does not capture the dynamic efficiency gains which are expected to flow from NCP reforms (eg changes in business behaviour which result in sustained improvement in productivity growth). Furthermore, the model assumes no change in the unemployment rate. If this conservative assumption was varied to allow some aggregate employment growth as a consequence of the output growth, the long-run gains would be higher.

The estimates of the long-term effects from the model indicate considerable variability across regions as a result of the NCP reforms. Individual reforms are estimated to produce different effects, which also differ across regions. Overall, a wider dispersion is estimated among country regions than in metropolitan areas in terms of output, employment and average income per person employed. Metropolitan areas are estimated to experience increases in output close to the national average, better than average employment outcomes and below average increases in incomes per person employed. By each measure, some country regions

Estimated regional effects of NCP from model

Overall:

- only one of the 57 regions modelled is estimated not to benefit from NCP in terms of output;
- all regions are estimated to benefit in terms of average income per person employed; and

with no change in aggregate employment assumed:

- in the majority of regions, the estimated effect of NCP is either to increase employment or to reduce it by an amount which would be absorbed by less than one year of recent employment growth;
- in five of the 57 regions, five or more years of recent (relatively slow) growth would be needed to offset job losses from NCP;
- there are nine regions which lost jobs over the decade to the mid-1990s and which are estimated to experience further declines in employment as a result of job relocation associated with NCP reforms; and
- collectively, these 14 regions account for 25 per cent of Australia's land area, but only 6 per cent of national employment.

are estimated to gain more, and some less, from NCP reforms than metropolitan areas.

Estimated effects of NCP derived from modelling are only broadly indicative. Nonetheless, together with other available evidence, including costs associated with implementing some reforms, they support the Commission's assessment that there will be net benefits for Australia as a whole from NCP. Country Australia as a whole is likely to benefit from NCP, although there is likely to be more variation in the incidence of benefits and costs among regions. The Commission notes that, to date, the reforms implemented have provided greater benefits to large businesses in all areas and to people in metropolitan areas.

The effects of NCP reforms on most, but not all, regions are likely to be less significant than those resulting from the broad economic forces continually reshaping economic and social conditions in Australia. Failure to continue to implement NCP reforms will not stop the operation of these forces, but would deny the community the benefits of the reforms.

In country Australia, the benefits of NCP reforms are facilitated, and costs mitigated, by certain measures which are in place to meet the economic and social needs of rural and regional communities. These include measures to limit anti-competitive behaviour in the generally 'thinner' markets, such as provisions of the

Trade Practices Act, measures which provide State and Territory governments with the financial capacity to provide ‘average’ standards of services to their citizens, and explicit community service obligations which provide access to, and delivery of, infrastructure services at prices below the cost of supply.

More recently, in part in response to the adverse effects on country people of rationalisation of some government services, including that arising from NCP, the Commonwealth Government has acted to improve access to services. Measures taken include the establishment of rural transactions centres and increased incentives for doctors to set up practices in country areas, as well as better access to modern telecommunications technology.

The Commission sees a greater role for governments in helping to overcome information gaps about prospects for investment and employment, facilitating self-help initiatives, removing impediments to development and improving policy coordination.

Adjustment issues in country Australia

The conclusion that NCP reforms are producing benefits overall for metropolitan and country areas does not mean that adverse effects of some reforms on some country communities should be ignored. Governments have at their disposal policy instruments to mitigate such effects.

Coping with change

While NCP can be viewed as an overlay on an environment of continual change, it is also a *source* of change. In some instances, it may exacerbate negative economic and social consequences of other factors affecting particular regions.

If adjustment pressures develop rapidly and are regionally concentrated, generally available assistance programs may prove to be deficient. Governments may need to consider whether, on a case-by-case basis, additional specific forms of adjustment assistance are warranted to help people in communities adversely affected by change, including by NCP reforms.

In considering adjustment assistance, governments should ensure that there is effective coordination between agencies in dealing with adjustment problems, effective consultation and community involvement to ensure informed local input, and appropriate monitoring of outcomes to ensure that lessons are learnt from experience.

The extent of any adjustment problems arising from NCP reforms which could warrant such additional adjustment assistance is difficult to gauge in advance. Some of the adjustment, at least in terms of job losses from (pre-NCP) reforms of government businesses, has already occurred. However, some job losses associated with infrastructure reforms may have adverse social effects in country communities where job opportunities are limited. Reform of some statutory marketing arrangements could also create concentrated adjustment problems for certain communities.

Implementation of major NCP reforms should have regard to whether additional measures to facilitate adjustment are required to address large regionally concentrated costs. In doing so, the difficulties of identifying those in genuine need and of delivering assistance to them effectively need to be recognised.

Often, generally available measures, such as social welfare payments, job placement services and general support for (re)training will be sufficient to manage the adjustment burden. This approach has certain advantages in that it:

- treats individuals in similar circumstances equally;
- addresses the *net* effect of reforms and concentrates on those in genuine need; and
- supports families and individuals rather than a particular industry or activity.

Of course, this assumes that current assistance programs are effective in targeting basic needs across regions. It is important to ensure that such programs are performing appropriately in this respect.

RECOMMENDATION 9

Governments should rely principally on generally available assistance measures to help people adversely affected by National Competition Policy reforms. The effectiveness of these measures should be kept under review.

RECOMMENDATION 10

Where governments decide that specific adjustment assistance is warranted to address any large, regionally concentrated costs, such assistance should:

- ***facilitate, rather than hinder, the necessary change;***
- ***be targeted to those groups where adjustment pressures are most acutely felt;***
- ***be transparent, simple to administer and of limited duration; and***
- ***be compatible with general ‘safety net’ arrangements.***

(Chapter 13, pp. 377, 395)

Findings

Part A Developments in country Australia

1. A large proportion of the fastest-growing large country municipalities and smaller towns are located along the coast. Those experiencing falling population are predominantly in the interior or have economies dominated by a declining industry. While there are many inland towns and cities whose population is increasing, population growth in most small inland towns is below the national average. *(chapter 2, p. 26)*
2. Many wheat and sheep farming districts often have a growing provincial centre or 'sponge city'. In part, the growth of the provincial centre is the result of the relocation of population from farms and smaller towns in the surrounding districts. *(chapter 2, p. 28)*
3. Population growth in coastal regions is closely linked with growth in employment in the service industries and in the number of older and unemployed persons. Other areas of country Australia, on average, are experiencing slower population growth, in part linked to slow growth or contraction in employment in agriculture and services. *(chapter 2, p. 31)*
4. By some measures, people in country Australia have lower incomes relative to those in the cities, and the difference appears to be increasing. Educational attainment is lower, although there is a higher proportion of people with vocational training. On average, the unemployment rate is also higher in country Australia. The picture is a diverse one, with some regions doing much better than others. *(chapter 2, p. 39)*
5. Since the early 1970s, changes in the overall structure of the Australian economy have followed the broad pattern of development of most developed economies. Notwithstanding the absolute growth in output of agriculture, mining and manufacturing, their shares of gross domestic product have declined, while that of the services sector has risen. *(chapter 3, p. 51)*
6. Since the early 1980s, both the level and the variability of structural change has been greater in country Australia than the cities. *(chapter 3, p. 60)*

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7. High rates of structural change in country Australia do not necessarily involve employment losses. Similarly, low rates of structural change are not always associated with high employment growth. *(chapter 3, p. 60)*
 8. Broad long-term economic forces which are beyond the control or influence of governments have been key drivers of the economic and social changes of particular relevance to country Australia. These include: changing technology and increasing productivity; rising incomes and changing lifestyles; and declining world agricultural and mineral commodity prices. *(chapter 3, p. 78)*

Part B The National Competition Policy Reforms

9. In regional Australia, large users of electricity have enjoyed significant reductions in usage charges. As access to the contestable market (ie ability to choose supplier and negotiate price) is extended, direct price benefits for other businesses and households should also occur. Employment in the sector has fallen in both urban and regional areas. *(chapter 5, p. 118)*
10. The main impact of NCP gas reforms in urban areas has been a rebalancing of usage tariffs between businesses and households, which has seen large price falls for business users and more modest falls for households in all States except Victoria, in which there have been modest increases. For country Australia, the main benefit has been the stimulus provided by the extension of the gas network and the associated opportunities this has created for existing and new businesses. *(chapter 5, p. 131)*
11. NCP water reforms have resulted in significant increases in charges for many users, particularly irrigators. Notwithstanding improvements in the efficiency of service delivery, these increases are likely to continue. At the same time, the reforms are providing benefits to the environment through, for instance, greater incentives to reduce wastage, thereby leading to more efficient investment in water infrastructure. However, more progress on reforms intended to improve water property rights and their tradability is necessary in order to enhance the prospects of achieving a net increase in the value of agricultural output. *(chapter 5, p. 159)*
12. The modest progress in road transport reform has meant that the projected benefits have yet to be fully realised in both country and city areas. Nonetheless, country areas have derived some benefit to date from the reductions in regulatory overlaps and inconsistencies between jurisdictions. Also, better road access for newer technology, such as B-doubles, and increased competition have seen productivity increase and freight rates fall. *(chapter 5, p. 168)*

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13. Rail reforms have produced significant benefits for the economy in general and particularly for users in country Australia. This has involved job losses. Full-time employment in the rail industry has declined more rapidly in country Australia than in the capital cities, with adverse effects on certain rural communities. *(chapter 6, p. 175)*
 14. Competition in telecommunications has seen prices fall for both country and metropolitan customers. However, service quality outcomes in all areas have been mixed. *(chapter 6, p. 182)*
 15. The process of reviewing statutory marketing arrangements is well under way, but, to date, relatively few of these reviews have been completed or reforms implemented. Consequently, it is too soon to assess the effects of these reforms. *(chapter 7, p. 201)*
 16. The range of conflicting views on the validity and effectiveness of statutory marketing arrangements reinforces the importance of NCP in requiring the review of such arrangements in order to assess whether they benefit the community as a whole. *(chapter 7, p. 213)*
 17. Misperceptions about the scope and implementation of competitive neutrality, and in particular the application of the ‘public interest’ test, suggest that early efforts by governments to inform those affected by competitive neutrality were inadequate. Additional efforts by governments have gone some way to counter these lingering misperceptions in the public and private sectors, but continuing measures are still necessary. *(chapter 8, p. 238)*
 18. Changing social patterns (such as more flexible working hours, the increase of women in the workforce and single parent households) have contributed to decisions by governments to make shopping hours more flexible. These more flexible retail trading hours have weakened the competitiveness of some retailers. At the same time, they have been of net benefit to consumers and appear to have increased employment, including in country Australia. *(chapter 9, p. 260)*
 19. The potential for legislation reviews to introduce important changes affecting people’s lives and livelihoods highlights the need for integrity in the review process, including the operation of the ‘public interest’ test provisions of NCP. *(chapter 9, p. 266)*
 20. As the reviews of legislation governing professions in most jurisdictions have yet to be undertaken, NCP has had little impact overall to date on the provision of professional services in country Australia. *(chapter 9, p. 268)*

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21. There are a number of reasons why petrol prices are always likely to be higher in the country than in the cities. These include less competitive markets, the cost of transporting petrol from refineries and the more limited scope to sell large volumes of petrol at smaller profit margins. *(chapter 9, p. 277)*
 22. Infrastructure services represent significant costs for industries based in country Australia. NCP reforms affecting the provision of these services are producing productivity gains which, although leading to some employment losses, have helped to make user industries more competitive and benefited consumers. *(chapter 10, p. 293)*
 23. There would appear to be significant gains for the Australian community, and for country Australia as a whole, from implementing NCP reforms. The reforms are likely to have a more varied effect in country regions than in metropolitan areas, with implementation costs of some reforms being more evident in the former. *(chapter 10, p. 306)*
 24. The effects on most, but not all, regions of the NCP reforms are likely to be less significant than those resulting from the broad economic forces which are continually reshaping economic and social conditions in Australia. *(chapter 10, p. 308)*

Part C Improving National Competition Policy and achieving better outcomes for country Australia

25. Many people have a poor understanding of NCP and its effects. As a consequence, it has been blamed for adverse social and economic impacts resulting from a range of sources. This state of poor knowledge involves a risk that worthwhile reforms may be forgone and actions to overcome problems may be misdirected and ineffective. *(chapter 11, p. 315)*
26. Without a clear delineation of responsibility for reform initiatives, there is scope for jurisdictions not to take responsibility for potentially unpopular discretionary actions, but rather to imply (explicitly or implicitly) that they are required to do so under NCP. *(chapter 11, p. 321)*
27. The manner by which restrictions on competition may be considered under NCP is not well understood by many people. This is consistent with a wider lack of effective communication about, and hence appreciation of, what constitutes NCP and how it is implemented. *(chapter 11, p. 324)*

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28. Control of NCP rests with governments which have used forums and processes to consider and, where necessary, modify NCP implementation schedules. The evidence suggests that these processes are working.
(chapter 11, p. 335)
29. NCP does not mean that the provision of community service obligations to country Australia must be curtailed. However, it will enable the wider community to assess, in a transparent manner, the costs and benefits of providing these services.
(chapter 12, p. 354)
30. The provision of community service obligations reflects political judgements about the equitable provision of services to people throughout Australia. The Commission's recommendations relating to better provision of information about NCP should help to ensure that governments do not abrogate their responsibilities to provide an 'adequate' level of services to communities in country Australia by claiming that cost-cutting measures are dictated by NCP.
(chapter 12, p. 354)
31. There may be a case for specific adjustment assistance packages where a concentrated adjustment shock occurs rapidly and is large relative to the size of a community. The decision to proceed with assistance will be influenced by the (direct and indirect) costs and benefits of an adjustment package tailored to a particular regional change relative to the costs and benefits of relying on general measures.
(chapter 13, p. 383)
32. There is significant scope to improve the management of the reform process in country Australia through:
- genuine and effective community consultation;
 - governments co-ordinating their responses to adjustment difficulties; and
 - monitoring of outcomes.
- (chapter 13, p. 391)*

1 Introduction

1.1 Background to the inquiry

This report assesses the transitional and ongoing economic and social effects of the National Competition Policy (NCP) on rural and regional Australia. It also assesses the impacts of NCP reforms on people and businesses in rural and regional communities relative to those located in the cities. The inquiry follows a request by a House of Representatives Standing Committee (Hawker Committee 1997a) for a study of the extent to which the benefits of competition are flowing to rural and regional Australia.

The inquiry took place at a time when the economic, social and other circumstances of rural and regional communities were being, and continue to be, affected by the interaction of many factors, including:

- Australia's increasing integration into the global economy and the lowering of international barriers to trade and capital — which have added to pressures for change in some regions and industries, but created opportunities in others;
- downward trends in world commodity prices (eg for some agricultural products and minerals which are major exports for Australia);
- a downturn in the economies of some of Australia's major trading partners (eg Japan and some South-East Asian nations);
- changes in consumer tastes (eg a decline in the demand for wool and increased demand for some horticultural products);
- changes in lifestyle (eg internal migration to coastal areas);
- technological change (eg the 'computer revolution');
- resource discovery and depletion (eg mine development and closures);
- increased attention to environmental and land use requirements; and
- reforms by all governments directed at making Australian industries more internationally competitive and getting better value for money from government programs (eg labour market and microeconomic reforms).

The net effect of these myriad influences has varied markedly between regions. The associated adjustment pressures have led to changes in the composition of activity within regions, and the movement of resources and people from some (metropolitan, rural or remote) regions to others. Several rural and regional communities have been hit particularly hard — some towns are in decline as their core industries face long term decline, government services are reduced and businesses close or relocate in response to population losses. In contrast, other regions have experienced significant growth (eg those growing cotton, wine grapes and other horticulture products, or benefiting from tourism and mining).

An important task for the inquiry was to disentangle the effects of NCP from, and to examine also, the many other government and non-government factors which influence growth and adjustment in rural and regional Australia.

Terms of reference

The terms of reference for this inquiry are set out at the front of this report. In brief, the Commonwealth Government requested the Commission to inquire into the transitional and ongoing effects on rural and regional Australia of the NCP reform package agreed to in 1995 by the Commonwealth and all State and Territory governments. In particular, the Commission has been asked to report on:

- the effect of competition policy reforms on the structure, competitiveness and regulation of industries and markets supplying, and supplied by, rural and regional Australia;
- the economic and social effects of the reforms on rural and regional Australia and on the wider Australian economy;
- differences between regional and metropolitan Australia in the nature and operation of major markets, and in the effects of competition policy reforms; and
- measures to facilitate the flow of benefits (or to reduce transitional costs or negative impacts) to rural and regional Australia from the reforms.

The Commission also has been asked to consider other influences on rural and regional Australia, including international trade, foreign investment and globalisation. The terms of reference do not require the Commission to consider how best to promote the long-term development of rural and regional Australia. However, because participants have raised this issue, the report also considers government measures which are designed to hold and attract resources to regional areas.

In conducting this inquiry, the Commission is required to have regard to policy guidelines set out in the *Productivity Commission Act 1998*. These guidelines direct the Commission to take into account the interests of the wider community and also social, environmental and regional objectives that bear on the quality of people's lives. It is also required to consider the need to facilitate adjustment to structural changes in the economy.

The inquiry process

The Commission released an issues paper in late September 1998 inviting written submissions on matters raised by the terms of reference. A draft report was released on 14 May 1999. In total, 303 submissions were received (214 prior to the draft report), primarily from local governments, regional and industry organisations, small and large businesses, farmers and academics. All State and Territory governments were involved in the inquiry in varying degrees.

To gather information about the views and experiences of people living and working in rural and regional communities, the Commission undertook an extensive round of visits in all States and Territories. It visited around 75 rural and regional locations and held informal discussions with around 1000 people representing Commonwealth, State, Territory and local governments, private sector businesses, industry groups (covering mining, manufacturing, agriculture, tourism and other services), regional development organisations, community and environmental groups, academics and others. These discussions provided contact with a wider range of people and localities than would have been possible with the more formal initial public hearings which the Commission usually conducts. Public hearings on the draft report were held in Adelaide, Perth, Tamworth, Albury, Launceston, Bendigo, Toowoomba, Townsville and Canberra in June–July 1999.

Those who made submissions, and the groups and locations which the Commission visited to hold informal discussions, are listed in appendix A.

1.2 Defining rural and regional Australia

The terms of reference focus on rural and regional Australia — a term for which there is no precise definition.

Rural and regional Australia can be defined by physical and social characteristics (eg geography and cultural boundaries) and perceptions. For example, in many respects, the South Australian and Tasmanian Governments regard their entire States as regions, and some consider the Northern Territory as part of the South-East

Asian region. Within Australia, regional administrative arrangements can transcend State boundaries (eg the Murray–Darling Basin Commission).

The definition of regions is governed often by the availability of data and the purpose for which those data are collected. Some examples are cited below.

- The Australian Bureau of Statistics (ABS) compiles data for States and Territories, statistical divisions (66), sub-divisions (194) and local areas (1336). It also produces some social trends analyses based on just three categories — rural areas, towns and cities.
- The National Office of Local Government classifies the 729 local governments which receive financial assistance grants into 22 discrete categories from ‘Urban Capital City’ through to ‘Remote Extra Small’.
- The Commonwealth Department of Employment, Workplace Relations and Small Business has adopted a classification of 450 ‘local labour markets’.
- Regional economic models usually adopt contiguous geographic zones — for example, the MONASH model, a derivative of which used for this draft report accommodates 57 regional areas.

Construction of a standard statistical definition of rural and regional Australia, which would have the benefit of simplicity, has not been feasible. It would require all relevant data series to be reconfigured to fit that definition, which is not practical because of the wide-ranging nature of this inquiry. Moreover, different classifications of regional data can be useful for different analytical purposes. Thus, in this report, the Commission has used data from a range of sources which adopt different interpretations of terms such as ‘metropolitan’, ‘remote’ and ‘rural’. In chapter 2, for example, it has aggregated the 1336 ABS local areas to create four categories — ‘capital cities’, ‘coastal’, ‘inland’ and ‘remote’. In other chapters, data are presented in the manner in which they have been collected.

Although statistical and jurisdictional boundaries are important, the Commission has not sought to constrain the reference by adopting a narrow view of what constitutes ‘rural and regional Australia’. Rather, in an attempt to capture the essence of the reference — which in colloquial terms is about the ‘city’ and the ‘bush’ — it has taken a broad view.

The Commission has interpreted ‘rural and regional Australia’ to include farms and rural towns (eg Ouyen in Victoria and Narrogin in Western Australia), important regional centres (eg Tamworth and Whyalla) and mining towns (eg Mount Isa and Kalgoorlie). It considers that the terms of reference were not generally intended to include capital cities or major urban–coastal agglomerations such as Geelong, Wollongong and Newcastle. Nonetheless, a broad definition allows the particular

circumstances of small and remote capitals (eg Hobart and Darwin) and larger, but remote, cities (eg Cairns) to be taken into consideration where particular circumstances or issues warrant their inclusion.

The Balanced State Development Working Group (BSDWG) considered the Commission's definition of rural and regional Australia to be too broad. It said:

... to redefine the reference so that it covers all parts of Australia other than metropolitan areas and to call that country Australia is a much broader view of the parts of Australia which are in the reference than we think is appropriate (trans., pp. 1042–3)

In its submission, the BSDWG (sub. 205) considered that the terms of reference for the inquiry should not cover large 'self-contained' communities such as Broken Hill, Cairns, Kalgoorlie and Whyalla. However, such definitional rigidity would rule out towns which clearly are remote. This would not accord with the generally accepted notion that the inquiry should cover the 'three Rs' — rural, regional and remote communities.

Overall, the Commission's broad approach to defining rural and regional Australia was generally supported by participants. For instance, Tasmania's West North West Councils considered that:

... rural and regional Australia knows who it is — and the community will define itself around the issue, as opposed to setting boundaries and lines around the area ... there is strong support for the approach outlined by the Commission in its issues paper, which sees rural and regional Australia including all areas other than the large metropolitan centres. (sub. 5, p. 2)

For the sake of succinctness, the Commission has adopted the term 'country Australia' when referring to rural and regional Australia.

1.3 What is National Competition Policy?

NCP is defined in the terms of reference for this inquiry as the set of reforms agreed to by the Commonwealth, State and Territory governments under intergovernmental agreements signed in April 1995. These reforms, which are discussed in detail in chapter 4, cover:

- prices oversight of certain government businesses;
- competitive neutrality between significant government businesses and private sector competitors;
- reform of the structure of Commonwealth and State public utility monopolies;
- reviews of legislation which restrict competition;

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- provision for allowing businesses to gain access to certain infrastructure facilities;
 - extension of the competitive conduct rules of the *Trade Practices Act 1974* to all businesses and professions in Australia, whether private or government; and
 - continuation of earlier reform commitments for gas, electricity, water and road transport agreed to by the Council of Australian Governments (CoAG).

In recognition of the economic benefits expected to flow from the reforms, and that the Commonwealth stands to gain increased tax revenue, NCP specifies a program of financial grants by the Commonwealth to State and Territory governments contingent on implementation of the agreed reforms.

In sum, NCP refers to a package of measures which, broadly speaking, aim to encourage competition. The underlying notion is that greater competition will usually create incentives for improved economic performance. To the extent that this can be achieved, incomes, employment and living standards are likely to rise. However, as it is not sensible to promote competition in some markets, NCP permits restrictions on competition where such arrangements can be shown to be in the ‘public interest’.

While NCP can be defined fairly precisely, its boundaries can appear arbitrary because many other microeconomic reform initiatives which also are intended to improve competition, such as general reductions in tariff assistance and deregulation of financial markets, lie outside NCP. Similarly, the ‘four pillars’ policy, which prohibits key retail banking mergers, and the recent deregulation of the petroleum industry, are also examples of competition policies which lie outside NCP. Of course, many reform initiatives have elements in common with NCP principles. For example, commercialisation of government businesses is consistent with NCP.

To put NCP into context, some examples of government policies potentially affecting metropolitan and country communities are presented in box 1.1. It is apparent from the box that NCP is only one part of a broad policy agenda.

Too strict an interpretation of NCP could lead to many of the concerns expressed by people in country communities being ignored. Consequently, the Commission has looked at the broader context in which concerns about NCP have been raised. The terms of reference, the Commission’s guidelines and its open public inquiry processes encourage such an interpretation.

Box 1.1 Examples of government policies potentially affecting country Australia**Microeconomic reforms**

- reductions in trade barriers (eg tariffs and quotas)
- reductions in other assistance programs (eg production bounties)
- easing of labour market regulation (eg wages agreements at the enterprise level)
- competitive tendering and contracting (eg outsourcing of information technology services)
- commercialisation, corporatisation and privatisation of government utilities and services (eg formation of business units within government departments)
- deregulation (eg petrol industry, financial markets)
- consumer protection and pro-competitive legislation (eg Trade Practices Act) and
- national competition policy

Other government policies

- macroeconomic policies (eg fiscal, monetary and exchange rate policies)
- public provision of social services and infrastructure (eg schools and hospitals)
- public provision of 'economic' infrastructure (eg roads and airports)
- foreign investment restrictions (eg Foreign Investment Review Board)
- regional policies (eg Rural Telecommunications Infrastructure Fund)
- environmental policies (eg regional forest agreements)
- Aboriginal reconciliation (eg native title legislation)
- social 'safety net' and adjustment (eg general social welfare schemes, regional adjustment schemes and phased reform measures)

1.4 Themes from country Australia

The experiences of regions in country Australia are mixed. The Commission met people in regions that are growing (eg Katherine in the Northern Territory), others that are contracting (eg Whyalla in South Australia) and some that are seeking to diversify their economic bases (eg Atherton in Queensland where some producers are switching from tobacco growing to horticulture). For illustrative purposes, country Australia can be split into three broad categories according to their growth experience:

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- *Growing*: Some regional areas are performing strongly and recording growth rates well in excess of the national average. These areas often have a diversified economic base, and may be prospering from growth in particular activities such as tourism and certain resource-based and agricultural activities (eg cotton and grape growing or export-oriented food processing). In some cases, towns that are faring well are benefiting from the regional consolidation of economic activity at the expense of smaller nearby communities — regional service centres (eg Dubbo in New South Wales) can attract and hold banking services, large retailers and government service centres and thereby draw trade and income from neighbouring areas.
 - *Static*: Large parts of country Australia are experiencing ‘business as usual’ overall. These areas typically have sufficient population to hold basic services. Towns in these regions tend to have some degree of diversification in economic activity. However, the composition of that activity may be changing in response to shifts in the fortunes of various products (eg wool relative to wheat).
 - *Declining*: The population of some areas in country Australia is in decline. These areas often lack a diversified economic base — for example, a mining town (eg Moura in Queensland) can find it difficult to adjust to a mine closure. Towns in these regions are often adversely affected by the ongoing decline in the number of farms (and hence rural population) throughout Australia. Scale is important and very small communities are vulnerable to self-reinforcing decline.

The Commission visited regions performing strongly as a result of new opportunities. It also encountered regions responding positively to challenges beyond their control — such as reduced demand and/or prices for their agricultural or mining products. People in many regions are seeking to assert greater control over their future by harnessing community resources in a variety of ways, including:

- promoting a region’s inherent advantages for investment (eg lower cost housing, better quality of life, a dedicated and stable labour force, excess infrastructure capacity and industrial sites);
- assembling incentive packages to attract people to relocate into the region (eg concessional land and rates holidays);
- diversifying into other activities (eg eco-tourism or niche horticultural products);
- seeking to retain certain services through community participation (eg community banking facilities); and
- improving sporting, social and recreational facilities and opportunities (eg festivals and competitions).

Regional experiences across Australia involve a mixture of progress and setbacks. Agricultural production and exports are increasing — although the product mix is changing from, for example, the traditional beef and wool sectors to increased production of cotton, wine, canola and horticulture products. However, the Commission received relatively little input from people in such growth sectors, or from those managing the top third of farms which account for around 70 per cent of broadacre agricultural production.

On the contrary, this inquiry has provided an outlet mainly for expressions of unease — as the Hon. Russell Cooper, MLA (the Queensland Opposition spokesman on primary industries) noted in relation to benefits flowing from NCP reforms:

There may have been. Often the good news doesn't come through, it's all bad. (trans., p. 624).

This view was noted also by the Senate Select Committee on the Socio-Economic Consequences of the National Competition Policy, which said:

... when negative impacts arise, NCP is held up as the culprit — guilty or not (it is rarely given credit for any benefits which arise). (Quirke 1999, p. 61)

Many people raised concerns about reform initiatives that are demonstrably linked to NCP. Some see NCP as another component of ongoing 'economic rationalism' which they regard as inimical to their wellbeing. It is also viewed by some as a bureaucratic drive led by State governments in pursuit of competition payments.

Many participants were more worried about government policies which do not form part of NCP (eg privatisation). In addition, during regional visits and in submissions, most people raised concerns about developments which are essentially beyond the control of governments (eg changes in consumer spending patterns and falling commodity prices).

The rest of this chapter attempts to convey the general tenor of views expressed to the Commission during meetings with, and in submissions from, people in country Australia. It does not attempt to categorise regional impacts according to whether they derive from the actions of governments or from factors beyond their control, or to assess the validity of the views advanced — that task is addressed in the body of this report.

Centralisation and falling service standards

Loss of local provision of services was a common theme throughout country regions — for example, *bank closures* and a reduction in government employees such as Telstra, rail, public works and community service personnel. Withdrawal of services

has deprived some communities of facilities (eg the capacity to bank shop takings) and can induce further population decline which threatens thresholds necessary to sustain important *social infrastructures* (eg schools, medical facilities and police stations). These developments were said to be typical of a more damaging overall trend — the *centralisation of management functions* to regional centres and capital cities.

Many regions in country Australia have minimal or no access to *mobile phone networks* and limited television coverage. While basic telephone services are available to virtually all households, in country areas the quality is often insufficient to enable *Internet access* or basic data transmission services such as facsimile. A frequently expressed concern of people in country Australia is a feeling of impotence associated with the replacement of local services with *call centres* that can be thousands of kilometres distant. The closure of local Telstra depots is widely considered to have led to poorer local *service standards* (eg long delays for telephone connections). However, most people in country communities recognised that the introduction of competition in telecommunications has led to cheaper long distance phone calls.

The social consequences of population decline

Many people in country Australia expressed concern about the loss of population to provincial centres and capital cities. Of particular concern is the *demographic imbalance* in many regional areas — in particular, a ‘shortage’ of people aged from between 15–35. This is said to arise from a lack of *employment and educational opportunities* and from closures of local bank branches and government offices and workshops.

Incidental effects of this demographic imbalance include the loss of motivated individuals who often are important for maintaining the social fabric of a small community through, for example, involvement in sporting clubs. This trend is said to have had a detrimental effect on the extent of *community leadership and voluntarism*. In some areas, the Commission was told that the ongoing *withdrawal of public and private services* (eg schools and banks) has reduced the flow of female employees into towns and created a shortage of women of marriageable age.

These concerns form part of a broader perception of a *deteriorating social amenity* in parts of country Australia. The lack of diversionary opportunities is considered to contribute to frustration and social dislocation. Rural counsellors told the Commission that the social costs of structural change are often reflected in drug abuse, alcoholism, escalating crime rates and youth suicide.

Government policies inducing decline in country Australia

A significant proportion of country people feel that they have been abandoned by governments. Many hold the view that the Commonwealth Government has no commitment to country Australia and that State and Territory governments are catering to the interests of the major urban populations. For example, some participants noted that country areas find it difficult to gain *basic services*, whereas millions of dollars are spent propping up urban public transport systems and city sports and arts facilities.

Some government policies are viewed as undermining the viability of regions. The *contracting-out* of roadworks, previously performed by regionally-based public works personnel, but now sometimes performed by contractors from elsewhere, is a common concern. In several States, people argued that the scale of tenders being let by State governments rules out work opportunities for locals and small contractors. Moreover, it was often said that *sub-standard infrastructures* are being built by outside contractors, reflecting their poor understanding of local conditions and/or mis-specification of tenders by city-based bureaucrats.

Compulsory competitive tendering in Victoria was seen by several local councils in regional areas as an unnecessarily onerous process. More generally, local governments in several jurisdictions complained of prescriptive requirements placed upon them by policy makers in capital cities — these include *tendering procedures* for markets too small to sustain more than one service provider. Many councils complained of *rigid guidelines* which reduce flexibility and force quality to be sacrificed in favour of lower costs. More generally, many people questioned the appropriateness of contracting-out and centralising *social services*. That said, many local councils indicated that *competitive neutrality* has delivered significant benefits in the form of improved costing information that enables them to make better use of rate payers' funds.

In rural regions, the issue of declining international *commodity prices* and the actions of other countries in *subsidising* agricultural products on world markets is a concern. Others (eg tobacco producers) complained of the impact of *tariff cuts* and the withdrawal of assistance. Of course, some producers who use certain rural products as inputs into their own production (eg feedstocks) favour further reform of those arrangements which raise the prices of inputs.

In remote regions, it was commonly stated that the Commonwealth Government has proven to be unreceptive to the damage inflicted on communities by the *fringe benefits tax* on employer-provided housing. This is claimed to increase costs significantly and frustrate attempts by regions to offer greater housing choices to employees in order to counter the impact of *fly-in, fly-out* operations.

Some participants indicated that the problems confronting country Australia are, in part, a legacy of earlier *government policies* — for example, State government policies which force mining companies to establish remote towns are said to have planted the seeds of future adjustment problems when the resource was depleted. Similar comments were made about well-intentioned *soldier settlement* policies following the world wars. More recent examples include practices such as putting disadvantaged people in *public housing* in regions with limited employment opportunities.

Commercialisation of government businesses

The identification and costing of community service obligations associated with the *commercialisation and corporatisation* of government businesses was an issue raised during discussions in many country areas. There is widespread concern that the process will lead to removal of *cross-subsidies* used to support lower prices for goods and services provided by government businesses to many users in country Australia. As the Commission was told, ‘in the past if we wanted better services we could lobby the local member, but now there is no way that a competitive business will supply a service at a loss’.

Many areas have seen reductions in uneconomic services (eg some *rail routes* are no longer serviced) and an increase in charges (eg requirements to contribute to water *headworks charges*). As well as affecting people living in the region, full cost recovery can deter new development. Some participants considered that full cost attribution and the *user pays* principle make sense, but drew the line at governments also seeking a *rate of return* on publicly funded infrastructure. This issue often emerged with respect to the construction and operation of water infrastructure and is seen as a threat to agricultural development.

Several participants sought the retention of government ownership of utilities. There is a widespread fear that the long history of *subsidised power and water* — so-called ‘postage stamp’ pricing — to regional areas is under threat. There are also concerns that uneconomic public infrastructure will fall into disrepair. In contrast, regions that are ‘losing’ from uniform pricing policies — for example, users on main rail lines who cross-subsidise users on spur lines tend to favour more *cost-reflective pricing*.

Competition in regional markets

Most *regional markets* have fewer suppliers and buyers than those in the cities — some country towns may be able to sustain only one supermarket or processor. This

has raised concerns that changes following the *legislation review* process will leave small producers at the mercy of regional monopolies (eg processors) and powerful retailing interests. Many rural producers felt that decisions taken following legislation reviews of longstanding *statutory marketing arrangements* for commodities such as grains, dairy products, eggs and potatoes could have adverse effects. It is commonly held that reform of such arrangements will be at the expense of rural producers and their communities, of doubtful benefit to consumers, and a windfall for retailers and/or processors.

Many participants also considered that regional consumers are increasingly likely to face higher prices because of the influence of *powerful retailers*. Indeed, a perceived *lack of competition* is a cause for concern in many smaller regional markets.

Similarly, the prospect of the removal of regulations curtailing trading hours and of regulations protecting groups such as *newsagents*, *service stations* and *pharmacies*, is considered likely to damage small communities. Unrestricted competition is seen by some as favouring large retailers and large service providers (eg road freight companies) by enabling them to expand and diversify at the expense of small local operators. However, some people in communities which had never (or had previously) experienced regulated trading hours consider that such restrictions would have little impact other than to inconvenience consumers.

Although not associated with any recent policy change, the Commission encountered disgruntlement with the significant differences in *petrol prices* between metropolitan and country areas. In some cases, independent petrol retailers such as Gull and Woolworths have introduced keen price competition which has reduced regional petrol prices. This development is usually welcome but, in some cases, people complain that it threatens the viability of local service station businesses.

A lack of vision for country Australia

A common plea by people in country Australia is for governments to have a vision for Australia into the next century. Many consider that the end result of current trends — whether driven by *globalisation* or government policy — will be a nation with massive population centres on the coast and a sparsely populated interior servicing fly-in, fly-out mining operations and large scale agriculture. Some people argue that reliance on economic criteria, rather than a *nation-building* vision, would have resulted in projects such as the Kalgoorlie pipeline and the Snowy River hydro-electricity scheme never getting off the ground. In this context, many people in country Australia are calling for integrated *regional development policies*.

In later chapters, these concerns are addressed with a view to ascertaining their significance across country Australia generally.

1.5 Structure of the report

To address the concerns of participants within the context of the terms of reference, the report is divided into three parts.

- Part A provides a brief overview of demographic and economic change, and the main sources of change, with an emphasis on changes affecting country Australia;
- Part B assesses the impacts of the NCP reforms, particularly on communities in country Australia; and
- Part C describes common misconceptions about NCP and proposes measures which could be taken to improve its implementation and operation. It also describes government policies which can facilitate the flow of benefits, or mitigate the costs, of the NCP reforms. These include policies which aim to maintain or attract resources to, and provide adequate levels of service in, country Australia. Finally, a number of adjustment issues are considered.

Part A Developments in country Australia

The National Competition Policy (NCP) reforms agreed between the governments of Australia do not operate in isolation from other government policies, or from the long-term economic and social changes which are affecting the Australian community more generally. If the contribution of NCP is to be correctly identified, there must be some understanding of these various sources of economic and social change. Given the scope of this inquiry, the focus is on influences which affect country and metropolitan communities differently.

Part A begins with a review of long-term trends in the geographic dispersion of Australia's population and a snapshot of economic and social indicators in chapter 2.

The changes occurring in the structure of the Australian economy are outlined in chapter 3. This helps to establish a benchmark against which to assess the contribution of NCP reforms in country communities and metropolitan Australia. Also examined in the chapter are forces which essentially are beyond the control of governments (such as international commodity prices), as well as some government policies, which may have contributed to the changing circumstances of country Australia.

2 Demographic changes and social indicators

Australia became increasingly urbanised during the first 70 years or so of the twentieth century. The proportion of the population living outside the capital cities declined from two-thirds to one-third over that period. Since then, the degree of urbanisation has plateaued, but population growth has not been even across the country. Growth has been concentrated in coastal areas of Queensland, New South Wales and south-west Western Australia, where industries associated with horticulture, tourism and other service industries are expanding. Some inland provincial cities have also grown, sometimes at the expense of smaller surrounding towns. Overall, smaller inland towns are growing more slowly than the national average.

Several social indicators suggest that country people fare less well than their city counterparts, although country lifestyles continue to appeal to many people. Country Australia tends to have lower levels of household income and education, and higher levels of unemployment. While country families are typically of the more 'traditional' type, there is a lower representation of young adults and the elderly in rural areas. Mortality rates are in general higher in rural and remote areas, and suicide rates are considerably higher.

2.1 Introduction

This chapter outlines the background of demographic change and social circumstances in country Australia against which the effects of National Competition Policy (NCP) can be assessed. Much of the data are available only up to 1996. However, the major demographic trends, which have been evident over the last twenty to thirty years, are unlikely to have changed in the past three years.

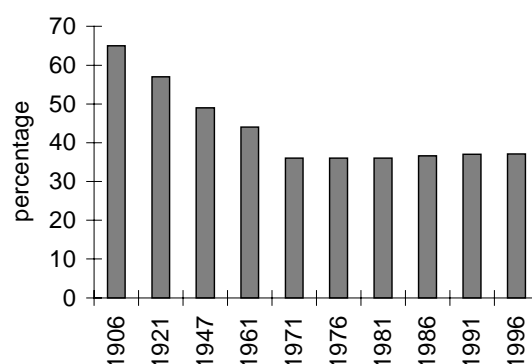
2.2 Demographic changes

Urbanisation in Australia

Australia is an urbanised society and, over most of this century, the degree of urbanisation has increased. As shown in figure 2.1, the proportion of Australia's population living outside the capital cities since the 1900s. By the 1970s, the long-term decline in this segment of the population had ceased, with data from the last three Censuses showing that the balance is gradually tipping away from the capital cities to other areas.

In only two States (Queensland and Tasmania) and the Northern Territory do a majority of the population live outside the capital cities. Capital city populations dominate in Victoria, Western Australia, South Australia and the ACT (see table 2.1). In the latter three jurisdictions, the capital cities are the only urban agglomerations with a population of 100 000 or greater. The Northern Territory does not have any centres over 100 000.

Figure 2.1 **Proportion of Australia's population living outside the capital cities, selected years, 1906–96**



Sources: IC (1993c); ABS (*Census of Population and Housing*, various years).

Table 2.1 **Proportion of Australia's population living outside the capital cities, by State/Territory, 1996**

State/Territory	Total population	Population outside capital city	Proportion of total population
	'000	'000	%
New South Wales	6 039	2 297	38.0
Victoria	4 374	1 235	28.2
Queensland	3 369	1 880	55.8
Western Australia	1 726	482	27.9
South Australia	1 428	382	26.8
Tasmania	460	270	58.7
Australian Capital Territory	299	..	0.1
Northern Territory	195	109	56.1

Sources: ABS (1998e, 1998c).

It is a common perception that large cities account for an increasing proportion of the population. In 1971, the proportion of people living in cities with 500 000 people or more was 57.9 per cent. By 1996, however, that proportion had decreased to 53.1 per cent (see table 2.2). Thus, while large cities are growing, they are not growing as quickly

as other parts of the country.

Large towns and small cities have experienced the fastest population growth over the last 25 years. These collectively accounted for 19 per cent of the total population in 1996, compared with 13 per cent in 1971.

Small towns are maintaining their share of the population. For each of the Censuses between 1971 and 1996, the *share* of Australia's population living in centres of between 1000 and 20 000 people stayed at around 14 per cent and the *number* of people living in small towns has actually been increasing. Moreover, the number of such towns increased by half over this period.

The share of the population living in 'localities' (the name given by the ABS to clusters of between 200 and 1000 people) also remained relatively steady at between 2 and 3 per cent. There were also more localities in 1996 than in 1971. The balance (those living in clusters of fewer than 200 people or on properties) stayed at around 12 per cent of the population, but increased in absolute terms.

In aggregate terms, then, there appears to be a proportional shift in the population away from the large cities to smaller cities and large towns, while small towns appear to be holding their own. However, the picture at a regional level is not as straightforward. Two major trends occurring in country Australia are masked by analysis at the general level. They are 'coastal drift' and the formation of 'sponge cities'.

Before turning to those trends, it is important to remember that these population changes do not necessarily indicate changes in economic conditions or, for that

Table 2.2 Australia's population by size of centre, selected years, 1971–96

Category (population range in persons)		1971		1981	1991	1996	
		%	no.	%	%	%	no.
Large cities	(more than 500 000)	57.9	5	55.5	53.3	53.1	5
Small cities	(100 000 – 499 999)	6.5	5	7.4	9.0	9.2	8
Large towns	(20 000 – 99 999)	7.0	25	8.3	8.8	9.7	50
comprised of:	(50 000 – 99 999)	2.5	5	3.1	2.7	3.0	8
	(20 000 – 49 999)	4.5	20	5.1	6.1	6.7	42
Small towns	(1 000 – 19 999)	14.0	450	14.4	14.2	13.9	676
comprised of:	(15 000 – 19 999)	2.3	17	2.9	1.6	1.3	14
	(10 000 – 14 999)	2.1	23	1.4	2.5	2.5	36
	(5 000 – 9 999)	3.7	67	4.2	3.7	3.6	87
	(1 000 – 4 999)	5.9	343	5.8	6.3	6.5	539
Localities	(200 – 999)	2.9	793	2.8	2.7	2.5	923
Balance	(less than 200)	11.7	..	11.6	12.0	11.5	..

Source: ABS (*Census of Population and Housing*, various years).

matter, living standards. An increase in population may stem from an increase in the number of welfare-dependent residents, which may add to the social problems of a local community. Conversely, a decline in population could result from improvements in labour productivity which may actually increase the per capita income of those who remain. Further material on the composition of changes in regional populations is presented later in the chapter.

‘Coastal drift’

One Australian in four lives in one of the 68 local government areas in Queensland and New South Wales with frontage along the Pacific Ocean (Salt 1998). Indeed, one of the major demographic phenomena in Australia has been the rapid growth of population in those municipalities. As some of this growth is fuelled by individuals relocating from inland locations, it is commonly referred to as ‘coastal drift’.

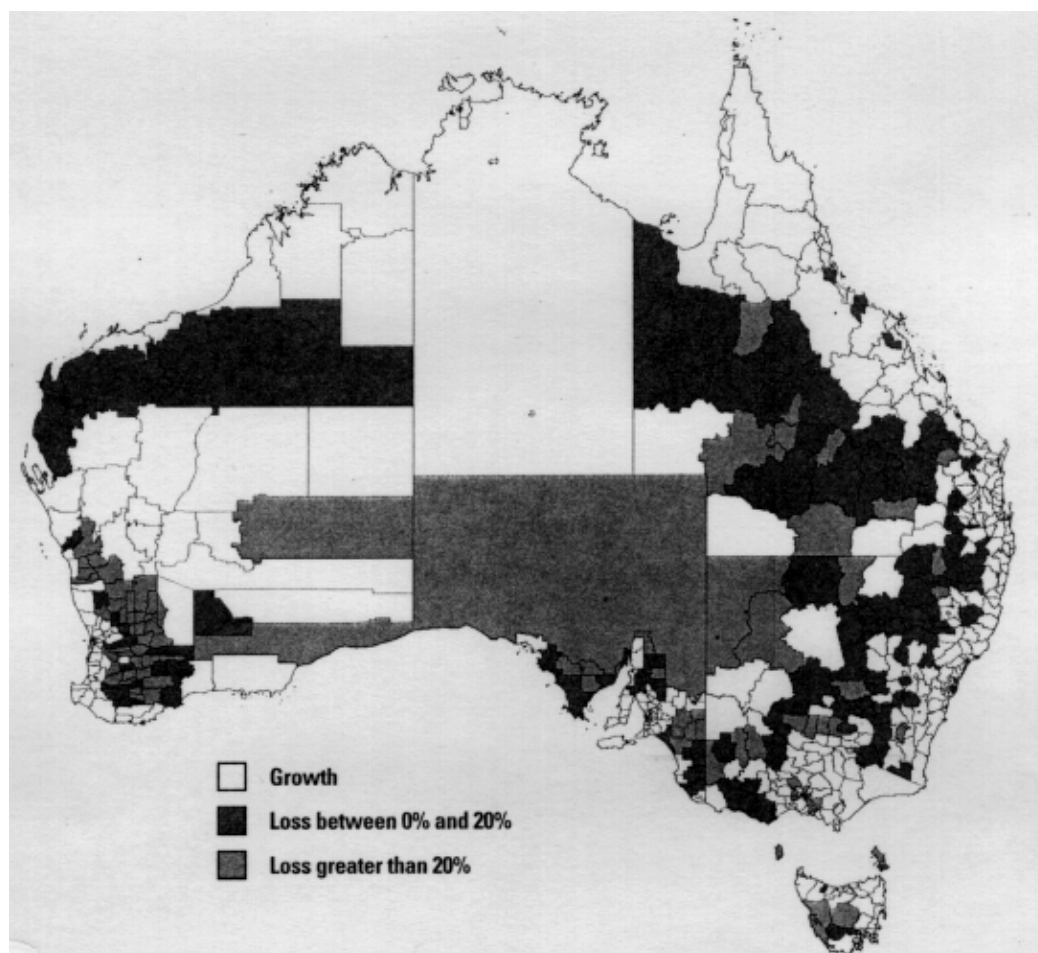
The growth and loss of population by local government area between 1976 and 1997 is shown on a map of Australia in figure 2.2. The growth of population along the eastern seaboard and in the south-west, as well as the population decline experienced in much of inland Australia, is evident.

Larger regional municipalities

Coastal drift is apparent from an examination the population growth rates of large regional (non-capital) municipalities. It is possible to see how coastal centres are dominating the ranks of the growing municipalities from table 2.3, which lists the largest 60 regional municipalities by their growth rates over the 20 years between 1976 and 1996. Of the 60 municipalities, 31 are located on the Pacific coastline or in the south-west. Of those 31 ‘coastal’ municipalities, 24 grew faster than the national average population growth over the 20 years to 1996. Of the remaining 29 ‘inland’ municipalities, only 10 grew faster than the national average. So while there is population growth in some ‘inland’ centres, the majority are growing more slowly than the national average or experiencing population decline.

Of the 10 fastest growing municipalities, nine were ‘coastal’. In order of population growth, these were: Mandurah; Sunshine Coast; Hervey Bay; Gold Coast–Tweed; Eurobodalla (Narooma); Ballina; Byron Bay; Coffs Harbour and Port Macquarie. The other — Mount Barker — is classified as ‘inland’, but has benefited from its close proximity to Adelaide. All had growth rates more than three times the national average of 1.3 per cent a year.

Figure 2.2 **Areas of population change in Australia, 1976–97**



Source: Salt (1998).

Over the latest intercensal period from 1991 to 1996, the only ‘inland’ municipalities in the top 10 fastest growing municipalities were Wingecarribee (Bowral) at eighth and Mount Barker at tenth. Just as Mount Barker benefits from its closeness to Adelaide, Wingecarribee benefits from its close proximity to Sydney, as well as from growth in tourism and hospitality in the area. The other eight in order of population growth were: Hervey Bay; Mandurah; Sunshine Coast; Yeppoon; Gold Coast–Tweed; Busselton; Cairns and Byron Bay. These are all coastal centres.

Of the ten municipalities with the weakest population growth rates over the period 1976 to 1996, five actually had declining populations. These were: Whyalla; Broken Hill; Mount Isa; Burdekin (Ayr) and Goulburn. The other five were Greater Lithgow, Grafton, Maryborough, Griffith and Geelong. Only three of these municipalities (Burdekin, Grafton and Maryborough) are located on the eastern seaboard. The economies of most of these municipalities have relied on significant local manufacturing or mining industries. For those centres, the decline in these

Table 2.3 Annualised population growth rates for Australia's largest regional municipalities^a, ranked by growth from 1976–96

	1976–96	1991–96		1976–96	1991–96
	%	%		%	%
Mandurah	7.9	6.7	Townsville	1.5	1.4
Sunshine Coast	6.8	5.5	Mildura	1.4	1.0
Hervey Bay	6.8	6.9	LaTrobe Valley	1.4	-1.0
Gold Coast–Tweed	5.9	4.9	Australia-wide	1.3	1.2
Mount Barker	5.5	3.1	Bendigo	1.3	0.6
Eurobodalla (Narooma)	4.9	2.5	Wagga Wagga	1.2	0.7
Ballina	4.7	2.8	Shepparton	1.2	0.5
Byron Bay	4.5	3.3	Toowoomba	1.1	0.5
Coffs Harbour	4.3	2.4	Bathurst–Orange	1.1	0.8
Port Macquarie (Hastings)	4.2	3.0	Newcastle	1.0	0.8
Great Lakes (Forster)	4.1	2.4	Rockhampton	0.9	0.3
Busseton	3.9	4.5	Warrnambool	0.9	0.8
Livingstone (Yeppoon)	3.7	5.1	Ballarat	0.8	0.2
Cairns	3.6	4.3	Launceston	0.8	0.6
Shoalhaven (Nowra)	3.6	2.3	Tamworth	0.8	0.0
Gladstone	3.2	2.2	Johnstone (Innisfail)	0.7	1.7
Nambucca Heads	3.0	1.1	Wollongong	0.7	0.9
Wingecarribee (Bowral)	2.8	4.1	Mount Gambier	0.7	0.7
Alice Springs	2.7	0.6	Burnie–Devonport	0.6	0.0
Bega Valley	2.5	1.3	Armidale	0.5	-0.8
Greater Taree	2.3	0.9	Geelong	0.5	0.0
Singleton	2.3	1.2	Griffith	0.4	0.6
Dubbo	2.1	1.5	Maryborough	0.4	0.2
Kempsey	2.1	0.8	Grafton	0.1	0.0
Mackay	2.0	2.3	Greater Lithgow	0.0	-0.3
Geraldton–Greenough	1.9	1.1	Goulburn	-0.2	-0.5
Albury–Wodonga	1.8	1.1	Burdekin (Ayr)	-0.3	-0.3
Lismore	1.8	0.6	Mount Isa	-1.1	-1.8
Kalgoorlie–Boulder	1.8	1.9	Broken Hill	-1.3	-2.0
Bundaberg	1.6	1.9	Whyalla	-1.6	-1.3
Bunbury	1.5	0.2			

^a 'Twin cities' have been combined. Shaded municipalities are defined as 'coastal', here limited to the Pacific coast of Queensland and New South Wales and the south–west of Western Australia.

Source: Calculated from Salt (1998).

industries has brought about relative, and in some cases absolute, decline in their populations.

Over the period from 1991 to 1996, ten municipalities experienced population decline. They were: Broken Hill; Mount Isa; Whyalla; LaTrobe Valley; Armidale; Goulburn; Lithgow; Burdekin; Burnie–Devonport and Grafton. Again, only Burdekin and Grafton are located along the eastern seaboard, while the majority are inland cities.

In short, among the large country municipalities, the major growth areas were predominantly on the eastern seaboard and in the south–west of Western Australia, although some inland towns have grown also. In contrast, the major municipalities

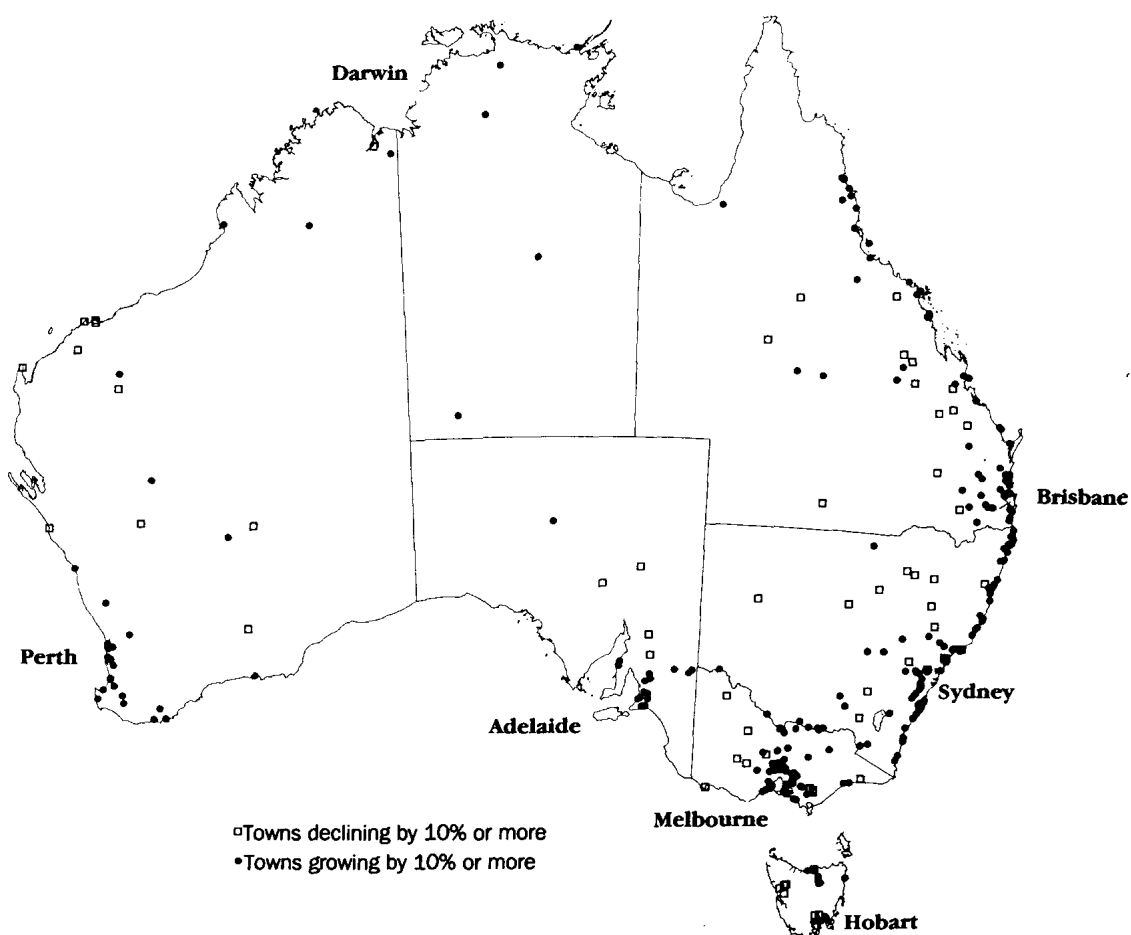
experiencing falling population were mainly inland centres or those with a significant declining industry.

Smaller towns

As shown in table 2.2, the role of small towns in the Australian urban settlement picture is not being crowded out by growth in other types of settlement. There is further evidence that, while there are small towns in particular areas which may have 'withered', the majority of them are increasing in size. Again, fortunes appear to be determined by whether the town is located on the coast or inland.

Of the 578 towns with between 1000 and 20 000 people in 1986, 47 per cent grew by at least 10 per cent over the ten years to 1996 (ABS 1998a). As was the case with

Figure 2.3 Small towns which decreased or increased by 10 per cent or more, 1986–96



Source: ABS (1998a).

regional municipalities, most of these growing towns are located along the coast, affected by 'overflow' from a nearby capital city or associated with growing industries such as tourism or viticulture (see figure 2.3). On the other hand, the 31 per cent which had declining population are predominantly inland towns. Of these, one-third experienced a decline of at least 10 per cent. These towns are mostly service towns for nearby dryland grazing or grain industries, or are in mining areas which were in decline.

Those small towns experiencing the most substantial demographic change are shown in table 2.4. The major characteristics of the town or area are listed along with the direction of change.

Table 2.4 Locations experiencing demographic change of more than 10 per cent over the period 1986–96

<i>Town or area</i>	<i>Major characteristics</i>	<i>Direction of change</i>
NSW:		
Werris Creek, Wee Waa, Narrabri, Barraba and Dorrigo, Murrumburrah–Harden	Service centre for surrounding agricultural areas	↓
Batlow	Timber milling and fruit-growing	↓
<i>Along the Murray</i>	Tourism, viticulture and retirement	↑
<i>Snowy Mountains</i>	Tourism	↑
<i>Around Sydney</i>	Suburbanisation	↑
<i>Hunter Valley</i>	Diverse industry base incl viticulture	↑
Victoria:		
<i>Western District including</i> Charlton, Ararat, Beaufort	Service centres for surrounding agricultural areas	↓
Moe–Yallourn, Morwell, Churchill	Brown coal mining industry	↓
<i>Around Melbourne</i>	Suburbanisation	↑
<i>Along the Murray River, eg. Rutherglen</i>	Tourism, retirement and viticulture	↑
Lakes Entrance	Tourism	↑
Western Australia:		
<i>Central West including</i> Kalbarri, Dampier, Mount Magnet, Pannawonica, Roebourne, Wickham	Sheep-farming and iron-ore mining	↓
Exmouth	Withdrawal of American personnel from naval communications centre	↓
Laverton and Norseman	Mining	↓
Wyndham	Service centre and port for surrounding agriculture	↓
Meekatharra	Mining	↑
Broome, Kununurra	Tourism and horticulture	↑
Leonora	Mining	↑
<i>Around Perth and south along the coast</i>	Diverse	↑
Queensland:		
<i>South-east</i>	Service centres for surrounding agricultural areas	↓
Hughenden, Winton	Service centres for surrounding agricultural areas	↓
Emerald	Service centre for surrounding mining area and newly established irrigation area	↑
<i>Coastal towns including</i> Port Douglas	Coastal tourism	↑

(Continued on next page)

Table 2.4 (continued)

<i>Town or area</i>	<i>Major characteristics</i>	<i>Direction of change</i>
Queensland (continued):		
<i>Darling Downs</i>	Service centres for surrounding agricultural areas; in particular, cotton is expanding.	↑
Burra, Peterborough	Railway and surrounding grain and pastoral areas	↓
Woomera	Rocket range	↓
Leigh Creek	Coal mining	↓
Cooper Pedy	Tourism and opal mining	↑
<i>Around Adelaide</i> , along Murray River including Berri, Renmark, Tanunda, Gawler, Aldinga, McLaren Vale	Diverse, including tourism, wine and fruit growing	↑
Tasmania:		
Queenstown, Tullah, Rosebery, Savage River, Zeehan	Mining	↓
George Town	Service centre for surrounding agricultural area	↓
<i>Around Hobart and Launceston</i>	Suburbanisation	↑
Northern Territory:		
Jabiru, Galiwinku, Katherine	Tourism and horticulture	↑
Yulara	Tourism	↑

Source: ABS (1998a, 1998c).

Further confirmation of coastal drift is provided by a disaggregation of the data in table 2.2. Given the evidence that the eastern seaboard and south-west were growing much faster than the rest of the country, these areas were analysed in more detail, along with capital cities, 'rural' and 'remote'. Definitions of these regions are given in appendix B, with a full list of statistical areas in table B.2.

As shown in table 2.5, the strongest growth of large towns and small cities (centres of population between 20 000 and 500 000) occurred near capital cities and the 'coast'. The proportion of the population living in such centres rose from 8.6 per cent in 1971 to 13.4 per cent in 1996. The share of large towns and small cities in rural and remote areas also rose, from 4.8 per cent in 1971 to 5.5 per cent in 1996. This indicates a population growth rate above the national average, and in part reflects the existence of 'sponge cities', which are examined in the next sub-section.

As expected, the data also show that small coastal towns and towns close to capital cities increased their share of the population from 4.4 per cent in 1971 to 6.1 per cent in 1996. Meanwhile, the share of the population residing in small towns in rural and remote areas decreased from 9.5 per cent in 1971 to 7.8 per cent in 1996. This indicates that, despite the steady share of population in small towns overall, small inland towns are in relative, but not absolute, decline.

It is clear that 'coastal drift' has been a significant demographic phenomenon in country Australia over recent years. Indeed, this trend has been evident for many

Table 2.5 Australia's population by location^a and size of centre, 1971 and 1996

Category	Population range in persons Location	1971		1996	
		%	no.	%	no.
Large cities	more than 500 000	57.9	5	53.1	5
Small cities	100 000 – 499 999	6.5	5	9.2	8
	Capital city	2.1	2	3.6	3
	Coast	3.4	2	4.8	4
	Rural	0.9	1	0.7	1
Large towns	20 000 – 99 999	7.0	25	9.7	50
	Capital city	0.6	2	1.2	6
	Coast	2.5	8	3.7	18
	Rural	3.3	12	4.3	22
	Remote	0.6	3	0.5	4
Small towns	1 000 – 19 999	14.0	450	13.9	676
	Capital city	1.4	45	2.2	96
	Coast	3.0	83	3.9	176
	Rural	8.5	280	6.7	340
	Remote	1.0	42	1.1	64
Localities	200 – 999	2.9	793	2.5	923
	Capital city	0.3	85	0.3	93
	Coast	0.6	161	0.6	222
	Rural	1.8	493	1.3	501
	Remote	0.2	54	0.3	107
Balance	less than 1 000	11.7		11.5	

^a Defined in appendix B.

Source: ABS (*Census of Population and Housing*, various years).

decades, and during this century it was probably offset only during the soldier settlement initiatives after the two world wars. Large towns and small cities inland have experienced above-average population growth in recent decades. On the other hand, population growth in small inland towns has been below the national average.

FINDING 2.1

A large proportion of the fastest-growing large country municipalities and smaller towns are located along the coast. Those experiencing falling population are predominantly in the interior or have economies dominated by a declining industry. While there are many inland towns and cities whose population is increasing, population growth in most small inland towns is below the national average.

‘Sponge cities’

In some parts of country Australia, the provincial centres have grown while the population of surrounding districts has declined. These growing provincial centres have been called ‘sponge cities’ (Salt 1998).

The ‘sponge city’ phenomenon appears to be most prevalent in the wheat and sheep belts of Australia, where the economies of scale of such industries and unfavourable movements in their terms of trade (see chapter 3) are bringing about the aggregation of farms and population decline. In such circumstances, the population growth experienced in the provincial centre stands out against the trend of surrounding smaller towns and communities.

There are many factors behind the ‘sponge city’ phenomenon. There is some direct migration to provincial cities from the surrounding district, such as those farmers who have sold their land to their neighbours and moved to the nearest regional centre to retire or find other work, or in order to retain family and social connections. In addition, there has been a concurrent concentration of some banking, government and other services in regional centres. Indirectly, this concentration of services also has been a factor supporting employment growth in the retail industry in regional centres as people from surrounding districts find it more convenient to conduct their business, including their shopping, in regional centres. This shift in growth has been in part at the expense of shops in surrounding small towns, contributing to the decline in those places. At the same time, the growth of ‘sponge cities’ is probably helping to strengthen the long-term growth prospects of the regions in which they are located by providing a range of services and industrial diversity more comparable to that available in metropolitan areas.

Table 2.6 Selected sponge cities in Australia

<i>City/town</i>	<i>Population, 1996</i>	<i>Average growth, 1986–96</i>	<i>Population, surrounding district, 1996</i>	<i>Average growth, 1986–96</i>	<i>Proportion of surrounding municipalities with declining population</i>
	persons	%	persons	%	
Dubbo	36 533	1.6	42 173	-0.1	4 of 6
Wagga Wagga	55 519	1.2	41 544	-0.2	7 of 8
Walgett	8 550	1.2	44 751	-0.9	6 of 6
Albury–Wodonga	77 818	1.5	74 136	-0.6	7 of 8
Horsham	17 322	0.3	65 778	-0.4	6 of 7
Mildura	40 664	1.3	18 866	-0.5	3 of 4
Geraldton	30 178	2.0	8 217	-1.4	3 of 4
Narrogin	5 358	0.7	7 784	-0.8	7 of 8

Source: Calculated from ABS (1998c).

An examination of ABS statistics reveals many examples of sponge cities across Australia (table 2.6). All of these centres are growing, some of them quite strongly, despite population decline in most of their surrounding districts. For some centres, such as Mildura, Geraldton and Albury–Wodonga, the increasing dominance of the centre in the demographic picture of the region reinforces the impression that it is indeed drawing people from its surrounds and from capital city areas.

An example of this — Dubbo in central New South Wales — is shown in table 2.7. Over the 21 years to 1997, the population of Dubbo grew by 53 per cent, while all the municipalities within a 100 kilometre radius of Dubbo (with the exception of the wine grape centre of Mudgee) have either stagnated or declined.

Table 2.7 Population and population growth of Dubbo and surrounding municipalities, 1976–97

<i>Municipality</i>	<i>Population, June 1997</i>	<i>Population change, 1976–97</i>	<i>Growth rate, 1976–97</i>
	persons	persons	%
Dubbo	36 726	+12 776	+53.3
Cabonne	12 219	+69	+0.6
Coolah	3 850	-600	-13.5
Coonabarabran	6 891	-509	-6.9
Gilgandra	4 862	-288	-5.6
Mudgee	17 660	+5 710	+47.8
Narromine	6 714	+64	+1.0
Parkes	15 286	+286	+1.9
Warren	3 409	-641	-15.8
Wellington	8 879	-671	-7.0
Overall	79 726	+10 926	+15.9

Source: Salt (1998).

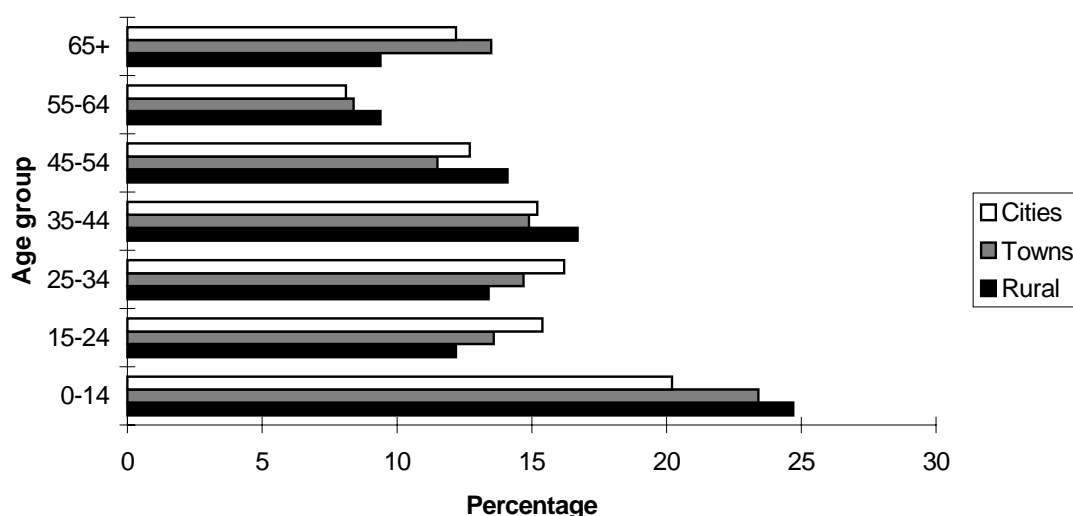
FINDING 2.2

Many wheat and sheep farming districts often have a growing provincial centre or ‘sponge city’. In part, the growth of the provincial centre is the result of the relocation of population from farms and smaller towns in the surrounding districts.

Age profile of country Australia

The age profiles of the populations in cities (centres with a population of 100 000 or more), towns (population between 1000 and 100 000) and rural areas (the remainder of the population) differ considerably (figure 2.4). For example, as indicated in the discussion of ‘sponge cities’, older people in rural areas often choose to move closer to community, health care and leisure facilities in regional centres, whereas those in

Figure 2.4 Age profile of cities, towns and rural areas, 1996



Source: ABS (1998a).

the cities often retire to coastal areas (see below). These flows are reflected in the proportion of the population aged over 65, which is noticeably higher in towns and cities than in rural areas.

The proportion of population in the 15–34 age group is also significantly lower in rural areas. Young adults are the group most likely to move to the cities for study and for work. Thus, although education opportunities are more limited in country areas, the mobile age groups are able to relocate in order to undertake education and training.

The proportion of population in the 35–64 age group is also higher in rural areas. This in part reflects the high average age of farm owner managers (54 years of age) (ABARE 1999), but could also be evidence that people are drawn back to country areas to raise families by the lifestyle advantages and family ties. The children of these people are evident in the relatively high proportion of the 0–14 age group in rural areas and towns.

Analysis of population changes

Decomposition of population growth using data from the three population Censuses from 1986 to 1996 can help to explain the differences in population growth in different parts of Australia. For the purposes of this analysis, statistical local areas in Australia were combined into four regional groupings, each of which experienced quite different population growth from 1986 to 1996. The regional groupings adopted are: capital cities (with population growth of just below the national average); coastal areas (well above average growth); rural and remote areas (each

with below average population growth). Details of the analysis, the classifications and data used are set out in appendix B.

A key, but not unexpected, finding of the analysis was the strong link between high regional population growth and high employment growth rates. That is, regions with relatively high employment growth also had relatively high population growth, and vice versa. For example, above-average population growth in coastal areas was associated with above-average employment growth, while below-average employment growth in rural areas was associated with below-average population growth. The effects of employment changes were complemented by variations in the numbers of dependants and students. Therefore, regions with above-average employment growth also tended to have above-average growth in the dependent and student population.

The reasons for the differences in population growth in regional groupings relative to the average growth rate are likely to vary, as are the links between population and employment growth in particular regions.

On the one hand, above-average population growth could be leading to higher employment growth by creating an increased demand for goods and services produced in the region, which then stimulates job growth as supply expands to satisfy that demand. For example, the proportion of older persons within the population is increasing in all regions, but it is increasing fastest in coastal areas. In these areas, 20 per cent of the population in coastal areas was over 55 and not working in 1996, up from 18 per cent in 1986.

On the other hand, above-average employment growth in areas driven by expanding activities, such as tourism, viticulture or new mining operations, could bring about increased population growth. In this case, increased employment opportunities in the new activities attract new residents to those areas or cause existing residents to remain to take advantage of the new opportunities, often with their dependants. The growth of services in coastal areas could be a result of the comparative advantage these areas have in tourism and associated activities, and could be an essential factor behind population growth on the coast.

From the analysis, the changing incidence of unemployment in the regions was also a contributor to their different population growth experiences. For example, the coast experienced only a marginal contraction in the number of unemployed between 1991 and 1996, while numbers of unemployed in the rest of the country declined significantly. This could have occurred for a number of reasons. Unemployed people may have been attracted to coastal areas by the prospect of employment, or by lifestyle considerations. This migration was identified in earlier work by the Industry Commission which found that 'people on fixed incomes, such

as recipients of welfare benefits, are relocating away from metropolitan areas' (IC 1993b, p. 55).

FINDING 2.3

Population growth in coastal regions is closely linked with growth in employment in the service industries and in the number of older and unemployed persons. Other areas of country Australia, on average, are experiencing slower population growth, in part linked to slow growth or contraction in employment in agriculture and services.

2.3 Labour market and household income

Labour force characteristics, such as participation rates, unemployment and levels of education of country Australians compared to other Australians, help to paint a picture of the economic wellbeing of people living in rural and regional areas, as well as being useful in assessing their ability to cope with change. This section examines these characteristics, as well as the income levels of country people. Income levels have been identified, along with education levels, as having a positive relationship with their likelihood to relocate for employment reasons (IC 1993b, p. 55), and are also useful indicators of social wellbeing.

Labour market characteristics

Before examining the characteristics of the labour force in country Australia, it is useful to look briefly at the changing character of the labour market Australia-wide, since many of the changes occurring nationally apply in country Australia.

Australia's labour market, as a whole, has changed considerably over recent decades. There has been a modest increase in the overall participation rate, which has contributed to the large increase in the supply of labour from population growth. However, job growth has not kept up, leading to an increase in unemployment and underutilisation of labour (people working fewer hours than they prefer). The average unemployment rate across Australia rose from 3.7 per cent in the 1970s to 7.3 per cent in the 1980s and 8.9 per cent in the 1990s to date (PC 1998b).

Along with the rise in the number of unemployed, there has been a rise in the average duration of unemployment — from around two months in the early 1970s to about a year in the 1990s (PC 1998b). The rate of long-term unemployment has also more than doubled, to around 2.5 per cent of the labour force (Debelle and Swann 1998).

More recently, with the stronger growth of the economy, the level of unemployment has been declining such that in July 1999 it had fallen to 7.0 per cent. In addition, long-term unemployment declined to an eight-year low in June 1999, and as a proportion of total unemployment was below 30 per cent.

The labour force in country Australia is in many ways more ‘traditional’ than in metropolitan Australia. For example, in 1996 rural families had a higher proportion of the ‘primary family reference person’ in the labour force (73 per cent) than families in towns (66 per cent) and cities (69 per cent) (see table 2.8). This reflects a higher reliance on the main breadwinner to provide for the household.

People in rural areas are also more likely to be employers and ‘own account’ workers (more than 15 per cent) than is the case in towns and cities (around 6 per cent). This reflects the nature of farming and service industries in rural areas.

Table 2.8 Employment status of primary family reference person^a, 1996
(per cent of labour force)

	<i>Rural</i>	<i>Towns</i>	<i>Cities</i>
Employee	51.5	54.3	58.9
Employer	4.3	2.2	1.8
Own account worker	11.1	3.9	3.7
Contributing family worker	1.4	0.4	0.3
Unemployed	4.9	5.4	4.6
Not in labour force	26.0	32.9	30.0

^a *Primary family reference person* — usually the first person on the Census form, and the one on whom relationships within the household are based for the purposes of the Census.

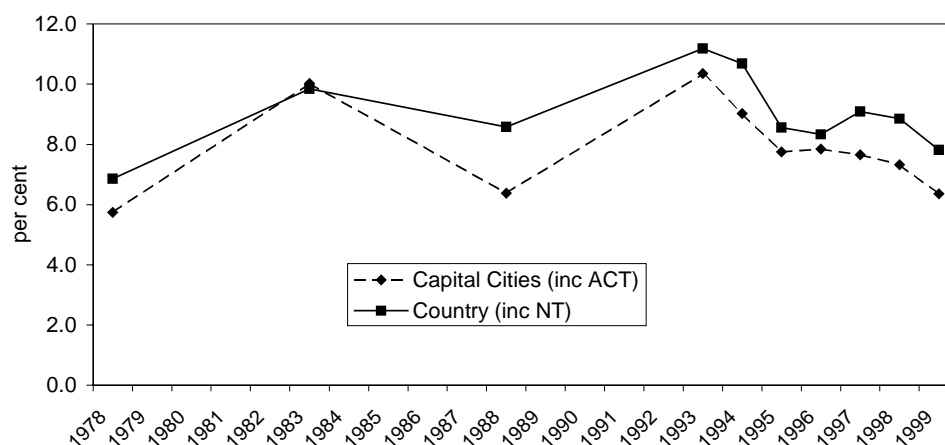
Source: ABS (1998a).

Unemployment rates

In most country regions, the unemployment rate is consistently higher than in the capital cities. According to labour force statistics, the average unemployment rate within capital cities is often around 1 percentage point lower than it is in the remainder of the country (figure 2.5). This difference has been apparent since the late 1970s, when collection of this data began.

A regional breakdown indicates that the nationwide figures mask a significant disparity in unemployment rates. Country regions in some States consistently have lower unemployment rates than the capital cities. This is so in South Australia and Western Australia, where there has been an average 1.2 and 1.3 percentage point difference, respectively, between country and capital city unemployment rates over the period 1993–99. In New South Wales, on the other hand, country unemployment has been on average 2.8 percentage points higher than Sydney since 1993.

Figure 2.5 Average unemployment rates in capital cities and balance of country, selected years, 1978–99



Notes: Data are for June quarter. Since separate capital city rates are not published for the ACT and Northern Territory, the ACT was included with the capital cities and the Northern Territory was included in 'country'. Five-yearly boundary changes have expanded the areas included in the capital cities, making comparisons over time not strictly accurate.

Source: ABS (*Labour Force Survey*, various years).

Howard and Buultjens (1999) found that there were some regions, often adjacent, which consistently exhibited unemployment rates notably different from their State capitals. For example, the regions of Wide Bay–Burnett, Moreton, Richmond–Tweed and Mid-North Coast, which run along the coast from north of Bundaberg into New South Wales as far as Taree, have all had unemployment rates above 12 per cent at each of the last three Censuses. At the other end of the scale, regions adjacent to the Murray River, such as Murray, Murrumbidgee and South–Eastern in New South Wales; and Ovens–Murray and Goulburn in Victoria, all recorded unemployment rates lower than their respective State averages. Regions in country areas of Western Australia, such as Upper Great Southern, Pilbara and Kimberley, also recorded particularly low unemployment rates.

The Industry Commission (IC 1993b, pp. 24–5) found that unemployment rates as a whole often mask a diverse regional experience of long-term unemployment. Whereas particular regions, such as Barcoo in Queensland, had low overall unemployment rates, a high proportion (in some cases more than 40 per cent) of people in them had been unemployed for more than one year.

Education levels

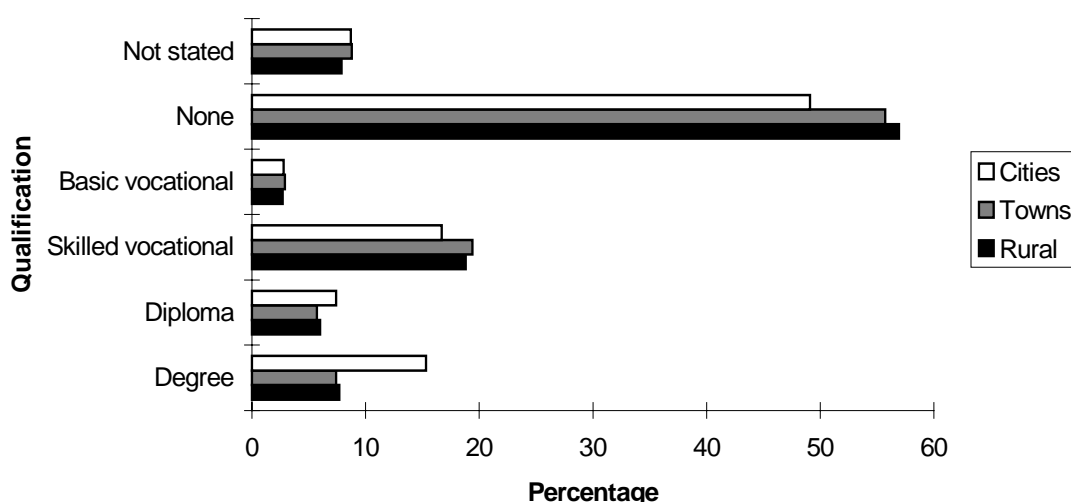
Education levels are often linked to improved employment prospects and higher incomes. In particular, levels of education and training are important when a regional economy is changing and people are required to cope with changes in the

location and types of employment available. For example, while further education may not be a necessary requirement for some occupations in country areas, it can be a useful credential for those wishing to enter occupations where employment opportunities are greater. It can also provide important life skills which improve people's ability to adjust to changing circumstances and take up new opportunities.

At the secondary school level, rural areas commonly have slightly lower rates of completion than urban areas. Recently published data show that, in 1997, this was the case in all jurisdictions except Queensland, where completion rates in urban and rural areas were the same. Nationwide, the average completion rate is 64 per cent in rural areas, compared with 66 per cent in urban areas (SCRCSSP 1999, p. 79). Those residing in more remote areas are more likely to rely on distance education and have access to a reduced range of education facilities than those in the cities.

As for post-secondary education, rural areas and towns had the highest proportion of people with no post-school qualifications in 1996 (figure 2.6). The proportion of families whose primary reference person had an undergraduate degree or higher qualification was 15 per cent in cities and around 8 per cent in rural areas and towns. University participation rates of 19–21 year olds in 1996 were nearly 19 per cent in rural and remote areas, compared with 27 per cent in metropolitan areas (mainly the capital cities) (DETYA 1999). These figures are based on the place of residence of students before they left the parental home.

Figure 2.6 Post-school educational qualifications^a, 1996



^a Refers to primary family reference person.

Source: ABS (1998a).

However, as indicated in figure 2.6, family reference persons in rural areas and towns were marginally more likely than those in cities to have a skilled vocational

qualification. Current participation rates in vocational education and training (VET) were also higher in rural and remote areas than in the capital cities. Australia-wide, the average participation rate in VET in rural areas was 8.3 per cent in 1997, compared with 8.1 per cent in remote areas and 6.8 per cent in capital cities (SCRCSSP 1999, p. 213). Therefore, while university education rates may be lower, a higher rate of vocational education could reflect a greater need for such qualifications in country areas, particularly when changing occupations.

Farmers make up around 12 per cent of the workforce in country Australia. In table 2.9 the level of qualifications held by farmers is compared with that of the general labour force. More than 50 per cent of farmers have completed four years or less of secondary education, with less than a third completing post-secondary qualifications. These levels of educational attainment compare unfavourably with those of the labour force as a whole. Low levels of formal education can make it difficult for people to cope with changing economic circumstances, especially in times of high unemployment.

Table 2.9 Level of qualifications of those working in agriculture, 1995

<i>Qualification</i>	<i>Employed in agriculture</i>	<i>Labour force as a whole</i>
Completed 4 years or less of secondary school	53.7	32.8
Completed secondary school	14.5	18.1
Completed trade, technical course and/or apprenticeship	19.4	23.2
Completed associate diploma or above	12.4	25.9
With post-school qualifications	31.8	49.1
Other remote centres	2.4	3.7

Source: Rural Industries Research and Development Corporation (1998).

Income levels

As shown in table 2.10, regional household incomes, which include transfer payments, are quite disparate across Australia. However, these data need to be interpreted with caution. They are sensitive to the number of self-employed (or 'own-account') workers, whose income may be underestimated. Country areas often have large numbers of such workers (see table 2.8).

In addition, incomes have not been adjusted to take into account the considerable differences in costs of living across Australia. For example, a major part of most household budgets is housing, and average rents and mortgage payments are much lower in many country areas, reflecting lower house and land prices (see section 2.4). This means that little reliance should be placed on comparisons based on *levels* of income. Nonetheless, as the systematic biases in the reported levels of income are unlikely to have changed significantly over time more reliance may be placed on

comparisons of changes in income levels *over time*. That is, if the data show that over time a region is better (or worse) off, it probably is.

The majority of country areas appear to have household incomes below the national average, while most capital cities have above-average incomes. However, there are some notable exceptions. Many of the more remote mining regions (eg the Pilbara and south-eastern Western Australia) have average household incomes significantly higher than the national average. On the other hand, some regions which are closer to the capitals have quite low average incomes (eg Barwon in Victoria and Moreton in Queensland).

Significantly, however, comparisons made over time show that household incomes in almost all country regions declined, relative to the national average, between 1981 and 1996. The two notable exceptions were the mining regions of North-Western (Queensland) and South Eastern (Western Australia). Of the capital cities, incomes increased relative to the national average in Sydney, Melbourne, Brisbane, Perth and Canberra, but declined in Adelaide, Hobart and Darwin. One factor contributing to this decline in average regional income levels could be the movement of retirees to country areas, as identified earlier in this chapter, since retirees usually have lower incomes.

Table 2.10 Average household income by statistical division ^a, 1981–96

Region	1981		1996	
	Average household income	Ratio to national average	Average household income	Ratio to national average
	\$'000	%	\$'000	%
Australia	16.0	100.0	38.0	100.0
Sydney	17.4	109.1	45.7	120.1
Hunter	15.5	97.2	34.4	90.4
Illawarra	15.3	95.6	32.7	86.1
Richmond–Tweed	13.7	85.9	28.6	75.1
Mid–North Coast	13.0	81.2	27.0	71.0
Northern	14.6	91.1	30.0	78.9
North Western	14.2	88.9	29.6	77.9
Central West	14.4	90.4	31.9	83.9
South–Eastern	13.5	84.8	32.4	85.1
Murrumbidgee	15.7	98.0	33.5	88.1
Murray	15.2	95.0	31.4	82.5
Far Western	15.4	96.4	28.0	73.7

(Continued on next page)

Table 2.10 (continued)

Region	1981		1996	
	Average household income	Ratio to national average	Average household income	Ratio to national average
	\$'000	%	\$'000	%
Melbourne	16.6	104.0	40.9	107.7
Barwon	13.2	82.7	29.7	78.2
Western District	13.7	85.6	30.4	80.0
Central Highlands	13.5	84.3	29.9	78.5
Wimmera	14.2	88.9	28.8	75.7
Mallee	15.1	94.4	29.5	77.5
Loddon–Campaspe	13.5	84.6	30.2	79.4
Goulburn	14.1	88.0	30.3	79.7
Ovens–Murray	14.5	90.7	36.2	95.2
East Gippsland	12.8	80.2	25.7	67.6
Gippsland	14.0	87.6	25.8	67.8
Brisbane	16.0	100.0	39.9	104.9
Moreton	13.2	82.3	31.3	82.4
Wide Bay–Burnett	13.6	84.9	27.2	71.4
Darling Downs	13.6	85.0	30.6	80.6
South–West	13.6	85.2	31.2	82.2
Fitzroy	17.1	106.9	37.7	99.1
Central West	15.1	94.7	33.1	87.2
Mackay	19.0	118.8	44.8	117.7
Northern	16.9	105.7	37.4	98.3
Far North	16.5	103.3	38.4	101.1
North–Western	19.5	121.9	48.2	126.7
Adelaide	15.2	95.0	35.2	92.5
Outer Adelaide	11.7	73.5	28.1	73.8
Yorke and Lower North	10.6	66.5	20.7	54.3
Murray Lands	12.3	77.0	25.9	68.0
South East	14.3	89.8	30.9	81.2
Eyre	14.0	87.5	26.6	70.0
Northern	15.2	94.9	30.2	79.3
Perth	16.0	100.1	39.1	102.9
South West	12.9	80.8	30.2	79.3
Lower Great Southern	14.4	89.9	29.3	77.0
Upper Great Southern	16.7	104.8	35.8	94.1
Midlands	14.4	90.2	31.0	81.5
South Eastern	17.8	111.1	57.2	150.5
Central	16.8	105.4	39.6	104.1
Pilbara	31.1	194.7	61.1	160.6
Kimberley	25.0	156.5	46.2	121.6
Hobart	15.5	97.0	34.4	90.5
Southern	9.5	59.7	20.0	52.6
Northern	13.5	84.6	29.0	76.3
Mersey–Lyell	14.6	91.4	29.3	77.0
Darwin	22.7	142.2	49.9	131.3
Balance of Northern Territory	21.4	133.8	45.7	120.1
Canberra	21.4	134.1	51.8	136.2
Balance of Australian Capital Territory	13.4	83.9	30.7	80.7

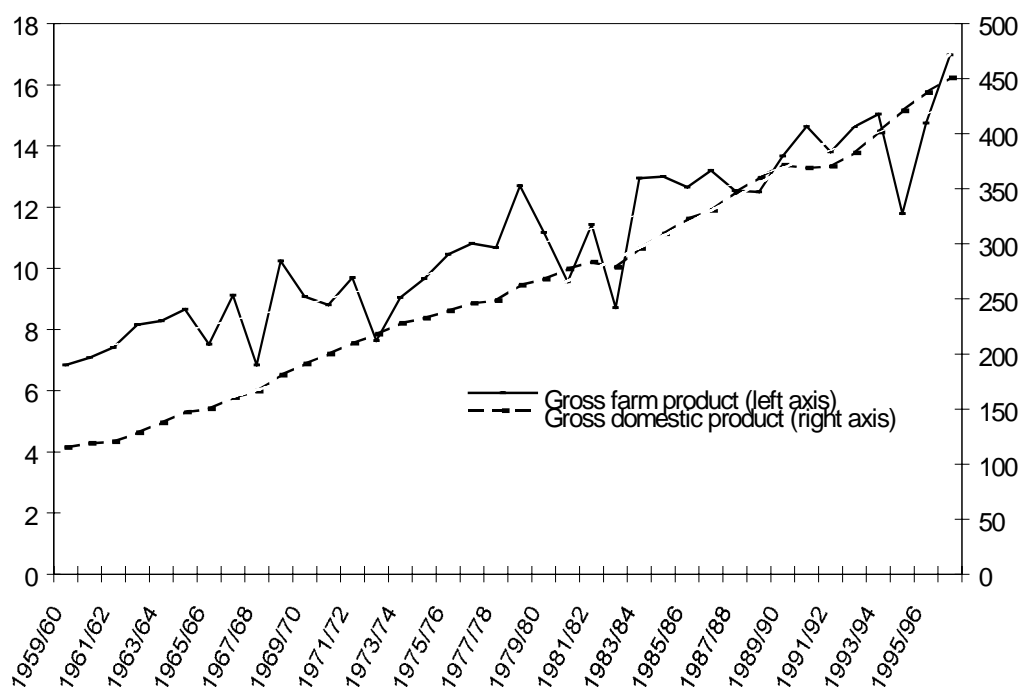
^a Offshore areas and Migratory and Other Territories have been omitted.

Source: ABS (*Census of Population and Housing*, various years).

An examination of Australian Taxation Office statistics on postcodes with the lowest and highest mean earnings reveals a similar picture. The taxation data indicate that the high earning postcodes are all either in the metropolitan areas or in remote mining areas, whereas the majority of low earning postcodes are located in inland rural areas (ATO 1998).

As a broad indicator of the income of farmers, a chart of gross farm product since 1959-60 (figure 2.7) indicates that the growth in farmers' incomes has been weaker than the gross domestic product over the last four decades. Since farmers make up around one-eighth of the population in rural and regional Australia, this slower growth would have had some impact on the income of the communities involved. It is also evident how much farm incomes tend to fluctuate from year to year with changing climatic conditions and commodity prices.

Figure 2.7 Gross farm product and gross domestic product at 1989-90 prices, 1959-60 to 1996-97
(\$'000m)



Source: ABS (1999a)

By some measures, people in country Australia have lower incomes relative to those in the cities, and the difference appears to be increasing. Educational attainment is lower, although there is a higher proportion of people with vocational training. On average, the unemployment rate is also higher in country Australia. The picture is a diverse one, with some regions doing much better than others.

2.4 Social indicators: country and city

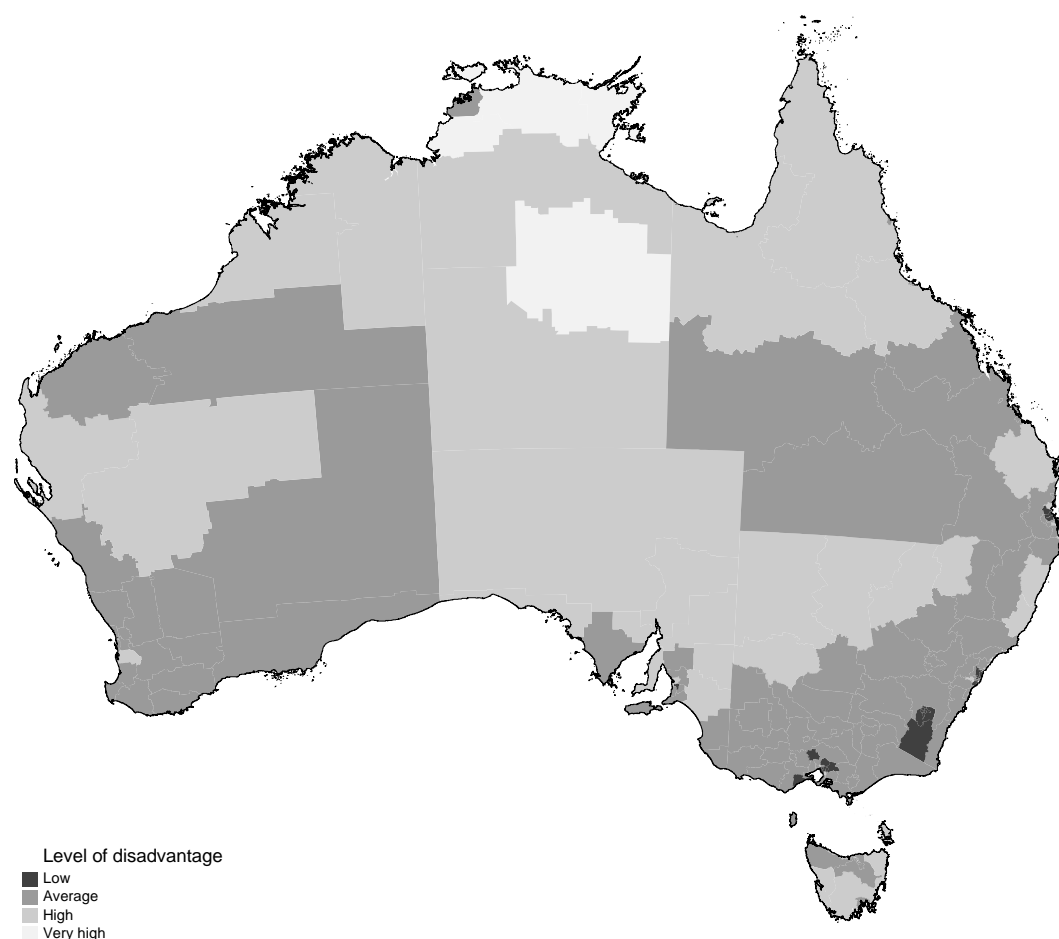
This inquiry has been asked to consider the social consequences of implementing the NCP reforms, particularly any differences between country and metropolitan Australia. To provide a background picture of country Australia against which the social impacts of NCP can be compared, the Commission has reviewed social indicators from the ABS *Census of Population and Housing* and other recent publications. The indicators relate to housing, income support and family structure. Also considered are health indicators such as access to medical and aged care services, mortality rates and suicide rates. An overall perspective and a convenient starting point is recent work by the ABS in developing an Index of Relative Socio-Economic Disadvantage (ABS 1998e).

Socioeconomic disadvantage

The Index of Relative Socio-Economic Disadvantage is constructed from data measuring unemployment and the proportions in the population accounted for by those who are low income earners, have relatively low educational attainment, rent rather than own dwellings, and lack fluency in English. From a base value of 1000 for the whole of Australia, data for individual regions are used to construct an index value for comparison. A low index value indicates a high degree of socioeconomic disadvantage.

The index values for each of the 194 statistical sub-divisions across Australia are shown in figure 2.8. It is apparent that some remote areas in the Northern Territory suffer the highest socioeconomic disadvantage, along with some metropolitan sub-divisions which, due to their small size, cannot be shown on the map. The areas of lowest socioeconomic disadvantage are concentrated in the large cities and the holiday areas such as the snowfields of New South Wales and the Surf Coast statistical division in Victoria. Since the Census is taken in August, those areas which attract large tourist populations at that time of year, including the snowfields and the Surf Coast, will return a skewed measure of disadvantage. This is because

Figure 2.8 **Index of relative socio-economic disadvantage, 1996**



Source: ABS (1998e).

tourists are unlikely to display the same socioeconomic characteristics as the resident population.

Most of ‘remote’ Australia (as defined in appendix B) has some degree of socioeconomic disadvantage, with the notable exceptions of the Pilbara and the south-east of Western Australia (where the mining industry employs people at relatively high incomes) and south-western Queensland. Most of ‘rural’ Australia (as defined in appendix B) has a level of socioeconomic disadvantage close to the national average, although parts of Tasmania, South Australia, northern New South Wales and some coastal regions in Queensland are more disadvantaged than the average.

While the map shows some concordance between population density and prosperity, the numerous exceptions in both metropolitan and country areas indicate a significantly different situation at the sub-regional level. In other words, while a

general picture can be presented in metropolitan/country terms, the situation in particular areas can be quite different.

Housing

One positive indicator appears to be the housing situation. Ownership levels are higher in country areas, while rents and mortgage payments are cheaper. In 1996, about half of rural families (fully) owned their homes, compared with 39 per cent of those living in towns and 43 per cent of city dwellers. About 17 per cent of rural families were renting, compared with 28 per cent in towns and 24 per cent in cities. Median rents in 1996 were around \$77 per week in rural areas, \$127 for towns and \$168 in cities. A similar picture emerges with respect to mortgage payments, with weekly median mortgage payments being around \$171 in rural areas, \$163 in towns and \$192 in cities (ABS 1998a).

Families

Rural areas have the highest proportion of 'traditional' families. In 1996, 90 per cent of families in rural areas were 'couple families'. This compares with 83 per cent in cities and towns. One-parent families represented 9 per cent of families in rural areas, compared with 15 per cent in cities and in towns.

Rural families are more likely to have children: the proportion of couple-families with children was 45 per cent in rural areas and around 40 per cent in cities and towns (ABS 1998a). Rural families also have more children — the proportion of families with three or more dependent children was around 25 per cent in rural areas, compared with 13 per cent in towns and 11 per cent in cities. This higher incidence of families with children in rural areas, especially families with a large number of children, is reflected in the greater proportion of 0–14 year olds in rural areas (figure 2.4).

In 1993-94, the proportion of families receiving a government pension or allowance as their principal source of income was highest in towns at 29 per cent, compared with 24 per cent in rural areas and 21 per cent in capital cities. The higher rate for towns probably reflects higher unemployment rates and, as shown in figure 2.4, a higher proportion of people eligible for the age pension. Further disaggregation reveals that one-parent families in rural areas were more likely to receive government benefits (70 per cent) than those in cities (48 per cent). Therefore, while there is a lower incidence of one-parent families in rural areas, they are more likely to be receiving welfare payments.

Medical services

It is generally accepted that country Australia, and remote regions in particular, have more limited access to the range of medical facilities than those residing in urbanised areas. Indeed, estimates of the number of general practice (GP) consultations per capita decline with remoteness (table 2.11), supporting the idea that medical access is a problem in country Australia.

In terms of the largest differences depicted in table 2.11, the number of GP consultations per 1000 persons in 'other remote areas' was about half the rate for capital cities. Factors contributing to some of this difference include the fact that GP consultations are much less common among males than females, and that males make up a relatively large share of remote populations.

The Australian Institute of Health and Welfare (AIHW 1998a) notes that there are alternative services in rural and remote areas — for example, hospital services, salaried community medical services (especially Aboriginal medical services) and substitute primary-care providers such as Aboriginal health workers and registered nurses. As for access to specialist medical services (such as facilities for complex surgery), there is some provision for assistance to be given to transport eligible patients to such facilities in the cities and provincial centres.

The concentration of primary care medical practitioners by location (table 2.12) clearly indicates that access declines with remoteness. The data indicate that in 1995 around 15 per cent of medical practitioners worked in rural and remote areas serving 30 per cent of the population (AIHW 1998a).

Access to hospital facilities also declines with remoteness. The Australian Institute of Health and Welfare stated that:

Table 2.11 General practice consultations per capita^a, 1995-96

<i>RRMA Category^b</i>	<i>Males</i>	<i>Females</i>	<i>Persons</i>
Capital cities	5.3	7.0	6.1
Other metropolitan centres	4.7	6.3	5.5
Large rural centres	4.1	5.6	4.9
Small rural centres	3.8	5.4	4.6
Other rural centres	3.4	4.9	4.2
Remote centres	3.0	4.4	3.7
Other remote centres	2.4	3.7	3.0
Total	4.7	6.4	5.6

^a Age-standardised to the Australian population at 30 June 1991. ^b Rural, Remote and Metropolitan Areas (RRMA) classification.

Source: AIHW (1998a).

Table 2.12 Distribution of primary-care medical practitioners, registered by State and Territory, 1995

RRMA category ^a	Practitioners per 100 000 persons			Total
	VRGPs ^b	RACGP trainees ^c	OMPs ^d	
Capital cities	109.4	8.6	12.1	130.0
Other metropolitan centres	98.4	7.6	8.8	114.8
Large rural centres	94.9	6.1	5.8	106.8
Small rural centres	85.3	5.8	5.6	96.6
Other rural areas	70.7	4.8	3.6	79.1
Remote centres	70.7	6.8	6.3	83.8
Other remote areas	45.0	6.0	14.0	64.9
Total	99.1	7.6	9.8	116.5

^a Rural, Remote and Metropolitan Areas (RRMA) classification. ^b Vocationally Registered General Practitioners. ^c Royal Australian College of General Practitioners trainees. ^d Other Medical Practitioners.

Source: AIHW (1998a).

The level of expenditure per available hospital bed declines sharply with increasing rurality, for both public and private hospitals. In 1995-96, the rate of expenditure in comparison to 'capital cities' was 20 per cent less in 'large rural centres' and 54 per cent less in the 'remainder' of Australia (AIHW 1998b, p. 80).

The Commonwealth and State governments have a widening range of policies in place to encourage doctors to set up practices in country Australia. For example, the Commonwealth Government in its 1999 Budget announced that it would spend \$43 million over four years to provide additional incentives for long serving general practitioners to remain in country towns (Anderson and Macdonald 1999). On the other hand, there continue to be restrictions on trainee and foreign doctors and the allocation of provider numbers, which were said by some participants to be an impediment to practitioners moving to the country.

Aged care services

The available data also suggest that country Australia has a reduced provision of aged care services. While cities and large towns have more than 400 nursing home beds per 100 000 persons aged 70 years and over, more outlying areas have less than two-thirds that number (AIHW 1998b, p. 92). Remote areas have fewer than 200 beds per 100 000 population. In rural and remote zones, 20 per cent of hospital beds are occupied by nursing-home-type patients because of the lower supply of nursing home beds.

Previous work by the Commission has found that rural and remote nursing homes are often required to perform a wider range of functions than their metropolitan counterparts for a number of reasons, such as the lack of allied professionals in those areas (PC 1999d, p. 111). As such, the extent to which aged care facilities can

adequately provide for those in rural and remote areas would appear to be limited in comparison with those in cities.

Mortality rates

Country Australia suffers higher overall mortality rates (death rates per 100 000 age-standardised to the Australian population as at 1991) than the capital cities. For the period 1992–96, both male and female mortality rates from all causes were higher than the national average in both rural and remote areas (AIHW 1998b). The death rate for males in remote towns with more than 5000 people was 1037 per 100 000, compared with the capital city rate of 828 per 100 000. That for females was 651 per 100 000 in remote towns as compared with 509 per 100 000 in capital cities.

This higher mortality rate was attributable mainly to higher death rates from coronary heart disease, injury and road accidents, along with the higher proportion of the indigenous population in remote areas. The male death rate from injury, in particular, was more than 51 per cent higher in remote areas than the national death rate. Death rates for cancer showed little variation between country and city areas, but those from diabetes and homicide were significantly higher in remote areas. According to the Australian Institute of Health and Welfare, ‘This reflects the high death rates for these causes among indigenous people, who form a relatively high proportion of the remote population’ (AIHW 1998a, p.42). This does not completely explain the higher death rates because indigenous death rates are also higher in rural and remote areas than in metropolitan areas. The higher death rates from preventable causes support the contention that lower levels of health service provision (and perhaps utilisation) are having a discernible adverse effect on the welfare of country people.

Suicide

An analysis of ABS data on suicides for the period 1964 to 1993, published in the *Medical Journal of Australia* (Dudley *et al.* 1998), indicates an increase in the number of male suicides in country areas. Key findings include:

- suicide among males aged 15–24 increased in all States while female suicide rates did not rise;
- in the 1960s, male youth suicide rates were higher in metropolitan centres than in small rural areas — by 1993 this relationship had been reversed; and
- during the study period, male suicide rates trebled — doubling in metropolitan areas and increasing by up to 12-fold in towns with fewer than 4000 people.

The key findings are summarised in table 2.13. The sample includes 8537 persons who committed suicide over a 30 year period, disaggregated by sex, State and size of location. Relatively small absolute increases from a small base may produce large percentage increases (such as the 34.5 fold increase in male suicides in small Victorian towns). That said, the trend is evident across all States. Moreover, in 1993, towns with lower than 4000 people recorded the highest *absolute* male suicide rates in Victoria, Queensland and Western Australia.

While the research did not examine the causes of the increase in suicide rates, the fact that the increase is on a nationwide scale and appears to be especially serious in country areas could be a symptom of an overall deterioration in the wellbeing of country Australians.

Table 2.13 Increase in suicide rates from 1964 to 1993, males aged 15–24

<i>State</i>	<i>Capital city increase</i>	<i>Towns >4000 increase</i>	<i>Towns <4000 increase</i>
New South Wales	1.6 fold	3.8 fold	9.9 fold
Victoria	4.2 fold	5.5 fold	34.5 fold
Queensland	3.0 fold	1.9 fold	31.6 fold
South Australia	2.7 fold	1.8 fold	5.5 fold
Western Australia	2.5 fold	3.2 fold	7.0 fold
Tasmania	>2.0 fold	..	3.6 fold

.. Towns >4000 in Tasmania recorded a decreasing suicide rate over the period.

Source: Dudley *et al.* (1998).

Lifestyle

People living in rural and regional areas of Australia often choose to live (or remain living) there for a multitude of lifestyle-related reasons. Such factors as clean air, reduced congestion, accessibility to open spaces and a stronger sense of community continue to draw people to country areas and retain those already there. The growth of population in coastal areas would suggest that the coast has a particular drawing power. These factors are difficult to quantify, but were identified by many participants as being the reasons why they chose to live in country Australia, notwithstanding the varied picture presented in the above social indicators.

3 Economic change in country Australia

The changing structure of the Australian economy has seen an increase in the relative importance of services, notwithstanding the continued expansion in output from agriculture, manufacturing and mining. This increase in services has occurred in both metropolitan and country regions, and has been associated with declining commodity prices, technological advance, and changes in consumer tastes and government policies. These long-term factors have had major effects on the economic and social circumstances of country Australia. Structural change has been greater and more varied in country regions than in the cities. New sources of change continue to emerge.

3.1 Introduction

As noted in the previous chapter, large changes in the geographic distribution of Australia's population have occurred during the course of this century. The earlier substantial movement of people from rural areas to capital cities and other urban centres, and the more recent drift of population to coastal areas and 'sponge' cities, are the major changes in population patterns.

The regional distribution of population is generally driven by economic factors, and in particular the location of jobs. What factors are behind the changing nature and location of jobs in Australia? This is the question which is addressed in this chapter. The answer is important in the context of the inquiry's task of assessing the impact of National Competition Policy (NCP) and other influences on economic and social conditions in country Australia. Section 3.2 summarises the nature and extent of structural change across Australia, and explores the relationship between structural change and some key regional characteristics. Important drivers of change, both market-related and those stemming from changes in government policy, are discussed in section 3.3.

3.2 The changing nature of Australia's economy

Australia, like other countries, has experienced considerable change in the structure of its economy over this century, particularly during the post-war period. This has been driven both by economy-wide developments, and by regionally-specific factors:

- the structure of the national economy has changed as services have become relatively more important, and mining, manufacturing and agriculture, notwithstanding their absolute growth, relatively less important. This is also reflected in the changes in small businesses, labour force characteristics, and patterns of foreign investment;
- the structure of regional economies reflects not only factors which influence the economy generally (regional economies which have a greater concentration of nationally expanding industries will have different employment outcomes than those more reliant on declining industries), but also regionally-specific factors, such as changes in the availability of forestry and mineral resources; and
- the responsiveness of different areas to a given change in the national or regional economy differs according to local characteristics (such as population density, economic diversity, and proximity to a city), which make them more or less vulnerable to particular sources of change.

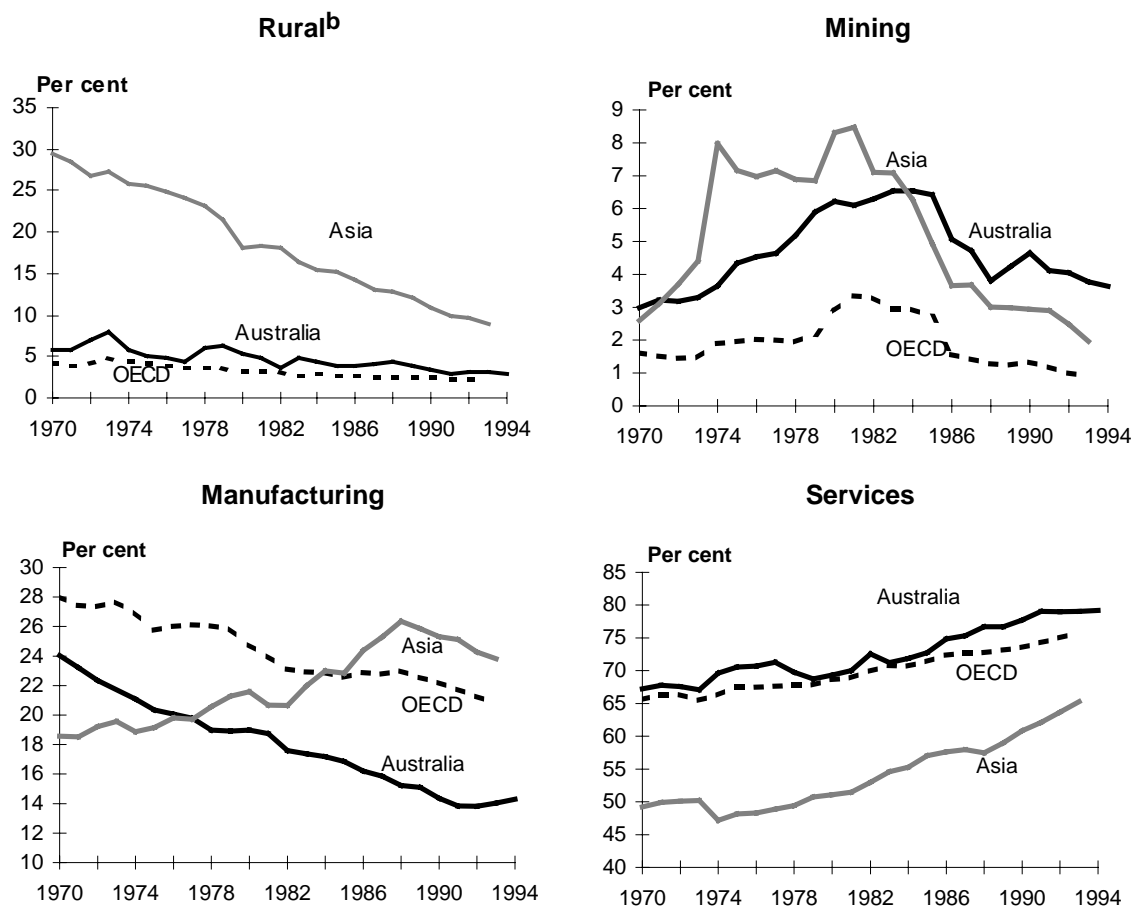
Changes in the structure of the national economy

As an economy develops, technological change and increased productivity lead to rising income levels. These enable greater consumption of manufactured goods and services, with a correspondingly smaller share of incomes spent on food and other 'subsistence' items. Technological advances which raise labour productivity in primary and secondary industries play an important role in inducing these changes.

Thus, through time, there is typically a decline in the relative importance of agriculture and an increase first in the relative importance of manufacturing industries, and, later, in service industries. This does not mean that the actual output of agriculture declines. It simply means that agriculture grows less rapidly than other sectors of the economy. Consequently, its share of Gross Domestic Product (GDP) decline.

Figure 3.1 shows trends in sectoral shares of GDP for a range of countries between 1970 and 1994. The relative contribution of agriculture is lower in Australia and Organisation for Economic Co-operation and Development (OECD) countries than it is in Asian countries, and it has been declining in all countries.

Figure 3.1 Sector shares of GDP, selected countries, 1970–94^a



^a Shares are based on value added data in current prices. OECD nations are: Belgium, Canada, Denmark, France, Finland, Germany (West), Italy, Japan, Netherlands, New Zealand, Norway, Sweden, United Kingdom, and the United States. Asian nations are: Hong Kong, Indonesia, Republic of Korea, Philippines, Singapore and Thailand. ^b Rural includes farming, forestry, fishing and hunting.

Source: PC (1998b).

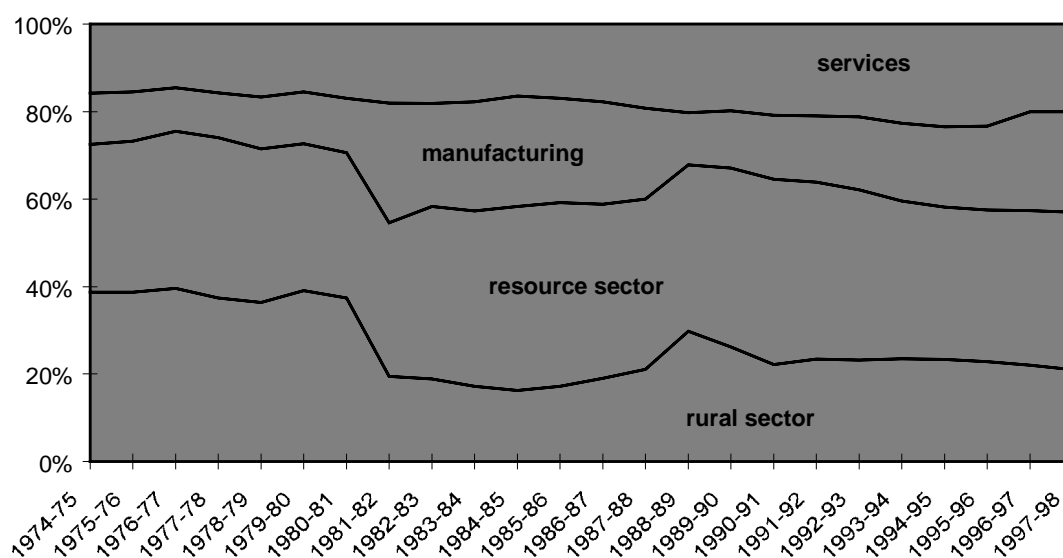
The less pronounced decline in agriculture's share of GDP since the 1970s in Australia and the OECD reflects the considerable adjustment which occurred before the 1970s. For instance, in Australia, agriculture's share of GDP declined from 21 per cent in 1948-49 to around 6 per cent in 1970. It has fallen further since then, to around 2.4 per cent (ABARE 1998a).

Consistent with the trend in most OECD countries, the relative contribution of the manufacturing sector to Australia's GDP is also declining. In Asian countries, manufacturing increased as a share of GDP until the mid-1980s, reflecting relatively recent industrialisation. The contribution of the mining sector has been more volatile in all countries, with its share increasing until the mid-1980s and generally declining since then. In all countries, the contribution of the service sector has become more important since the 1970s. The contributions to GDP of the rural and mining sectors

have remained much higher in Australia than in the rest of the OECD, a reflection of Australia's continued comparative advantage in agriculture and mining.

The changes in the sectoral composition of the economy have been reflected in changes in the composition of exports. Rural exports (farming, forestry, fishing and hunting) fell from around 70 per cent of total exports in the 1950s to 39 per cent in 1974-75. By 1997-98, the share of rural exports had fallen further, to around 23 per cent, while exports of other merchandise (ie manufactured goods) and services had grown (figure 3.2). Taken together, rural and mining commodities still account for nearly 60 per cent of Australia's total exports.

Figure 3.2 Export shares (by value)^a, Australia, 1974-75 to 1997-98



^a The rural category comprises farm (including wine), forestry (including paper and paperboard) and, from 1988-89, fisheries exports (excluding tuna under joint venture agreements). The resources sector excludes bauxite, diamonds and manganese prior to 1990-91.

Source: ABARE (1998b).

Agriculture and mining continue to be important sources of employment and economic activity in many parts of country Australia. As they depend heavily on export markets in which Australia is a price taker for its products, many regional economies in country Australia are vulnerable to changes in world prices and other conditions in commodity markets.

FINDING 3.1

Since the early 1970s, changes in the overall structure of the Australian economy have followed the broad pattern of development of most developed economies. Notwithstanding the absolute growth in output of agriculture, mining and manufacturing, their shares of gross domestic product have declined, while that of the services sector has risen.

Impacts of the changing pattern of the economy on the labour force

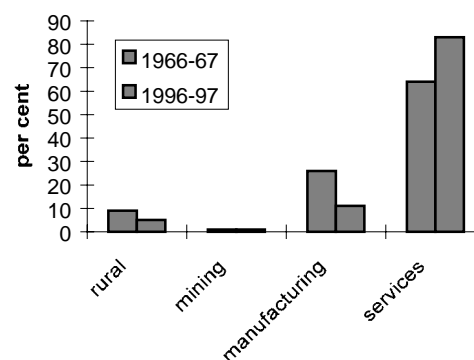
Consistent with the broad sectoral trends outlined above, the proportions of workers employed in agriculture and manufacturing have declined in Australia. The service sector now absorbs more than 80 per cent of the total labour force (see figure 3.3). The share of employment attributable to the mining sector is around 1 per cent — the same as thirty years ago.

Table 3.1 shows that overall employment increased by 21 per cent between 1981 and 1996. Non-metropolitan employment rose by 22 per cent from 1.9 to 2.3 million, while metropolitan employment rose from 4.4 to 5.3 million, or by 19 per cent.

The service sector has been the main provider of new jobs in both metropolitan and non-metropolitan areas. Employment in services increased overall by 42 per cent. In 1996, the service sector accounted for 82 per cent of employment in metropolitan areas, and 72 per cent in non-metropolitan areas. Of the major service industries, 42 per cent of total employment in the electricity, gas and water industry is in country regions. With the exception of finance and business, 25 per cent or more of employment in all other service industries is in country regions.

Although total manufacturing employment declined by 13 per cent, there was an increase of 16 per cent in country Australia. In 1996, metropolitan areas accounted for 75 per cent of total manufacturing employment, but in terms of its contribution to overall employment by region, manufacturing employment was nearly as important in non-metropolitan areas as it was in metropolitan areas. Manufacturing industries for which non-metropolitan employment is a significant share of total

Figure 3.3 Employment shares by sector, Australia, 1966-67 and 1996-97



Sources: IAC (1986); ABS (1998d).

industry employment are food, beverages and tobacco, wood products, basic metals, fabricated metals, and non-metallic minerals.

Table 3.1 Employment^a in city and country regions^b by industry sector, 1981–96

Sector	Industry employment 1981				Industry employment 1996			
	Metro		Non-Metro		Metro		Non-Metro	
	000's	%	000's	%	000's	%	000's	%
Agriculture	43	1.0	336	17.8	48	0.9	277	12.0
Mining	33	0.7	56	3.0	29	0.5	57	2.5
Manufacturing	912	20.7	203	10.7	731	13.7	235	10.2
Services	3 098	70.4	1 129	59.7	4 337	81.5	1 666	72.0
Unallocated ^c	316	7.2	167	8.9	176	3.3	79	3.4
Total	4 402	100.0	1 891	100.0	5 321	100.0	2 315	100.0

^a Based on data from the ABS *Census of Population and Housing*. Differences in methodology between the ABS Census and the ABS *Labour Force Survey* mean that employment data can differ between these sources — refer to ABS (1998). ^b The 194 statistical subdivisions (SSDs) used in the ABS Census have been combined into 113 regions. Regions are defined according to statistical divisions (SD) and SSDs drawn from the Australian Standard Geographical Classification. Newcastle, Wollongong and Geelong were added to the eight capital city SDs to form the 'Metro' (metropolitan) grouping. The remaining SSDs comprise the 'Non-Metro' group. ^c Comprises people who have not stated the industry in which they were employed.

Sources: Commission estimates based on ABS (1998c); unpublished 1996 *Census of Population and Housing* data; and PC (1998b).

The contraction in manufacturing employment bottomed out in metropolitan Australia in 1991. Between 1991 and 1996 manufacturing jobs growth was faster in non-metropolitan than in metropolitan areas. This probably reflects the expansion of manufacturing activities such as food and mineral processing outside the capital cities.

Agricultural employment declined overall by 14 per cent between 1981 and 1996, by which time it comprised only 12 per cent of non-metropolitan, and about 1 per cent of metropolitan, employment. Hence, even though agriculture and mining are still important in country Australia, services now provide by far the greatest number of jobs in country areas, just as in metropolitan areas.

Impacts of the changing pattern of the economy on small business

The changing structure of the economy has been accompanied by changes in the sectoral distribution of small businesses. The service sector has typically included a relatively high proportion of small businesses. The fast growth of this sector has meant that, overall, small businesses have become more prominent. Services' share

of total employment increased from 66 per cent to 73 per cent over the period 1983-84 to 1994-95 (Revesz and Lattimore 1997).

However, within the service sector, there have been declines in small businesses' employment shares in, for example, accommodation and cafes, and retail services, despite the fact that both these sectors have expanded since the 1980s. For example, employment in small retail businesses increased over the period 1983-84 to 1994-95, but the share of total retail employment accounted for by such small businesses fell by approximately 7 per cent (Revesz and Lattimore 1997).

Reflecting the reduction in the relative size of the manufacturing sector, manufacturing small businesses have become a smaller part of the economy. However, within the manufacturing sector, small business has increased its share, accounting for about 52 per cent of manufacturing employment in 1996-97, compared with 40 per cent in 1983-84.

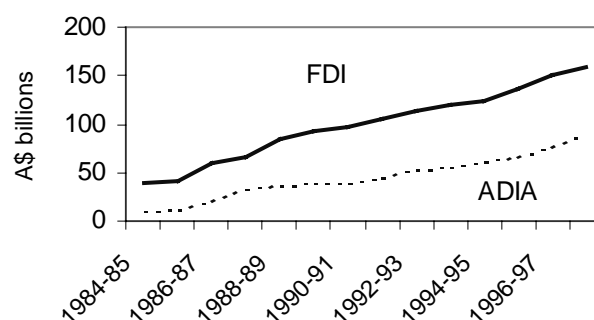
Consistent with the decline in the relative importance of the rural sector, employment by small family farms as a proportion of national employment also declined. However, in 1995, small businesses accounted for a slightly higher share of total rural sector employment than was the case in 1983. Revesz and Lattimore explained:

... the change in the employment share of small business at an aggregate level largely reflects structural change in the economy... The reason for a growing aggregate small business share is that sectors in which small firms play an intensive (minor) role have tended to expand (decline) in relative terms. (1997, p. 38)

Foreign investment in Australia

The levels of both foreign direct investment (FDI) in Australia and Australian direct investment abroad (ADIA) have been growing strongly in recent years (figure 3.4). This is as a result of increasingly open international trade and capital flows. Increased ADIA is a reflection of the growing ability of Australian companies to seek profitable investment opportunities offshore.

Figure 3.4 **FDI in Australia, and Australian direct investment abroad, 1984-85 to 1997-98**
Current values



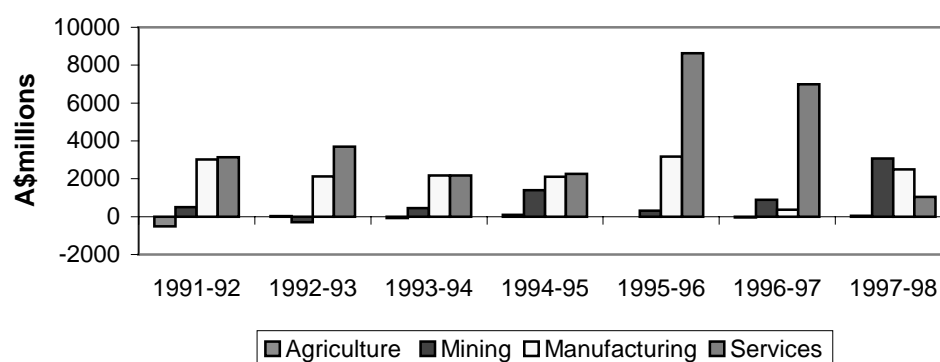
Sources: ABS (*Balance of Payments and International Investment Position*, Cat. no. 5302); ABS (*Australian System of National Accounts*, Cat. no. 5204).

Data compiled by the ABS, although rather dated, provide an indication of the extent of foreign ownership in particular industry sectors — measured, generally, as total foreign ownership as a proportion of value added. These estimates indicate that the level of foreign ownership of agricultural land was low relative to that in mining and manufacturing:

- agricultural land (1983-84), 5.9 per cent;
- mining (1984-85), 49.5 per cent; and
- manufacturing (1986-87), 30.9 per cent.

Changes in the patterns of FDI during the 1990s broadly reflect the increased importance of services (see figure 3.5). The level of foreign investment directed toward agriculture, forestry and fishing has been negligible. The sharp increase in FDI in services in 1995-96, and the subsequent decline, are due to fluctuations in FDI in electricity, gas and water (EGW) and finance and insurance.

Figure 3.5 Foreign investment flows by industry, 1991-92 to 1997-98
Current values



Source: unpublished ABS data.

FDI, while perhaps not altering the pattern of economic development, enables investment to take place which otherwise may not occur. Australia also benefits from foreign investment through improved access to new technology, skills and markets, thereby contributing to economic growth and technological development, and enhancing living standards. Australia's level of domestic saving has been such that, without FDI, Australia's level of investment and growth would have been considerably lower.

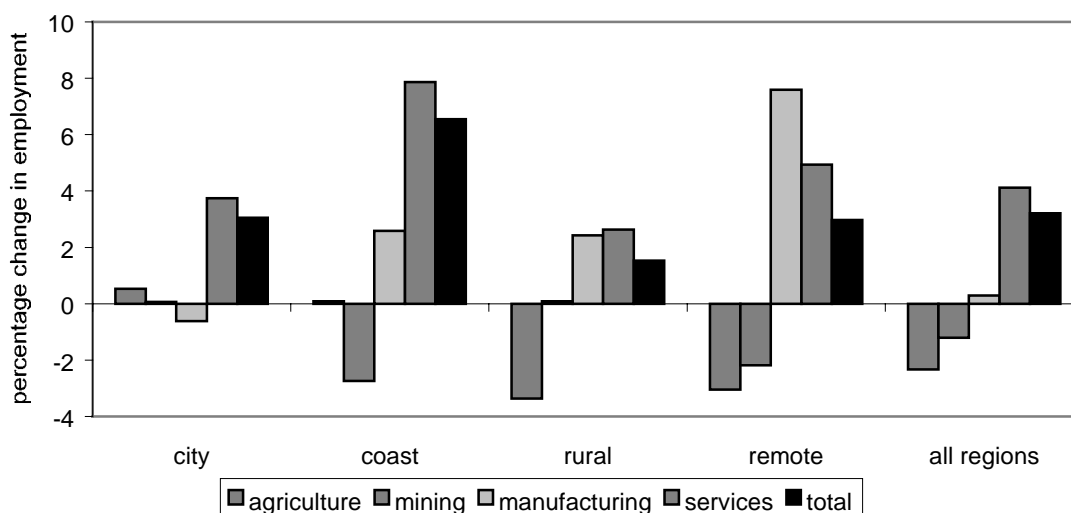
Changes in the structure of regional economies

The general growth in services, and the general decline (as a share of GDP) of primary industries, has had important implications for regional economies and the employment experience of regions in country Australia.

The implications of these changes for jobs growth in different types of regions are shown in figure 3.6, where Census data from 1986 and 1996 on employment by sector have been regrouped into the city, coast, rural and remote region classifications used in chapter 2 in order to compare changes in employment. It can be seen that jobs growth over the decade to 1996 has been strongest in coastal areas, and weakest in rural regions.

Figure 3.6 also shows that the loss of agricultural jobs has been an important contributor to the slower jobs growth in rural and remote regions since 1986. Manufacturing has been an important contributor to jobs growth in coastal, rural and remote regions. Mineral and agricultural processing are often located in remote regions, close to the source of ore or agricultural produce to be processed. The increasing availability of lower cost energy in remote areas also facilitates the processing of primary commodities in remote regions (see chapter 5). Service industries have been important for jobs growth in all regions.

Figure 3.6 Regional sources of changes in employment, 1986–96
per cent per annum



Sources: PC estimates based on ABS unpublished *Census of Population and Housing* data 1986 and 1996.

Structural change indexes

Census employment data can be used to provide a more detailed comparison of changes in country and metropolitan regions. While the broad changes in the national economy are mirrored in the regions, the aggregate changes in the structure of the national economy also mask a lot of the diversity of experience that is driven by local factors. The ‘depth’ or diversity of the local economy — whether it is city or country — affects the ability of local communities to adapt to any particular change in regional economic conditions.

An accepted method of measuring structural change involves using changes in the industry shares of total employment over time to construct structural change indexes (SCIs). Such indexes can then be used to give a single index value for the structural change which has occurred in a region over a specified period of time. They provide a measure of the extent to which industries within regions are changing at different rates as a result of shifts in the composition of employment — that is, structural change (OECD 1994; PC 1998b).

The Commission’s SCIs are based on changes in industry employment shares across regions from 1981 to 1996. The SCI is bounded by zero and 100. A region with an SCI of 10 means that 10 per cent of the workforce in that region in 1996 would have to move into different industries to re-establish the regional industry employment shares which prevailed in 1981 (see box 3.1).

Box 3.1 Structural change indexes

SCIs reflect many influences on the composition of employment, which can pull in opposite directions. They do not necessarily imply ‘good’ or ‘bad’ adjustments. For example, a region in which a new mine opens could have a substantial increase in the share of employment in mining. A mine closure in another region could result in an equivalent reduction in the share of employment in mining. Both regions will have the same SCI, despite one being in decline and one expanding.

In addition, SCIs do not explicitly take aggregate employment growth into account — for instance, if employment doubled in each industry in a region, individual industry shares of employment would not change and the SCI would be zero.

The aggregation of industries and regions influences the magnitude of SCIs. For this inquiry, regional SCIs were calculated for 113 regions and 60 industries. A more disaggregated data set would increase the SCI estimates because it would capture movements between more regions and/or industries — if a factory closes in Ipswich and another factory in the same industry opens in Albany, then industry structure will have changed at a regional level, but not at a national level.

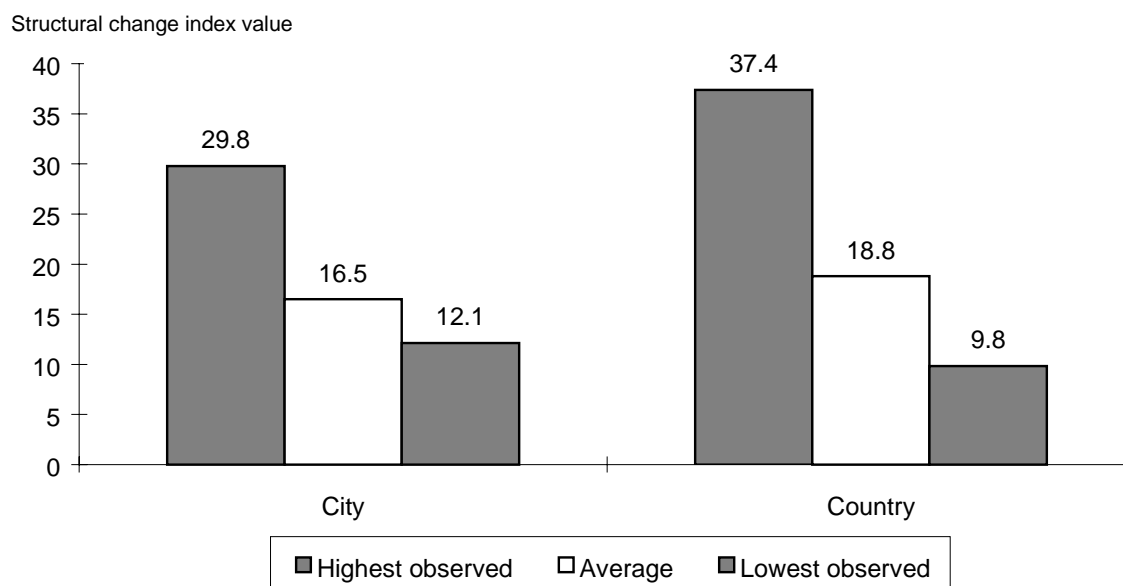
Source: PC (1998b).

The calculated SCIs show that, on average, country regions experienced a greater level of structural change than cities. They also had greater variability in their levels of structural change — country Australia had the regions with both the highest and the lowest SCIs (see figure 3.7).

Cities generally have lower SCIs because they tend to have more diversified economic bases. Because of their relatively small and narrow economies, country regions are more vulnerable to change than are the cities. For example, if a firm closes in a rural township, it is more difficult for unemployed workers to find alternative employment in the same area than it would be if a firm closed in a metropolitan area.

As noted, the SCI value depends solely on measured changes in the industry structure of total employment in a region — it is not influenced by whether total employment in a region is increasing or decreasing. However, whether a region is growing or not is clearly important. To take this into account, the Commission has used measured structural change *and* changes in employment to group regions into one of four quadrants: high SCI/low employment growth; high SCI/high employment growth; low SCI/high employment growth; and high SCI/low employment growth.

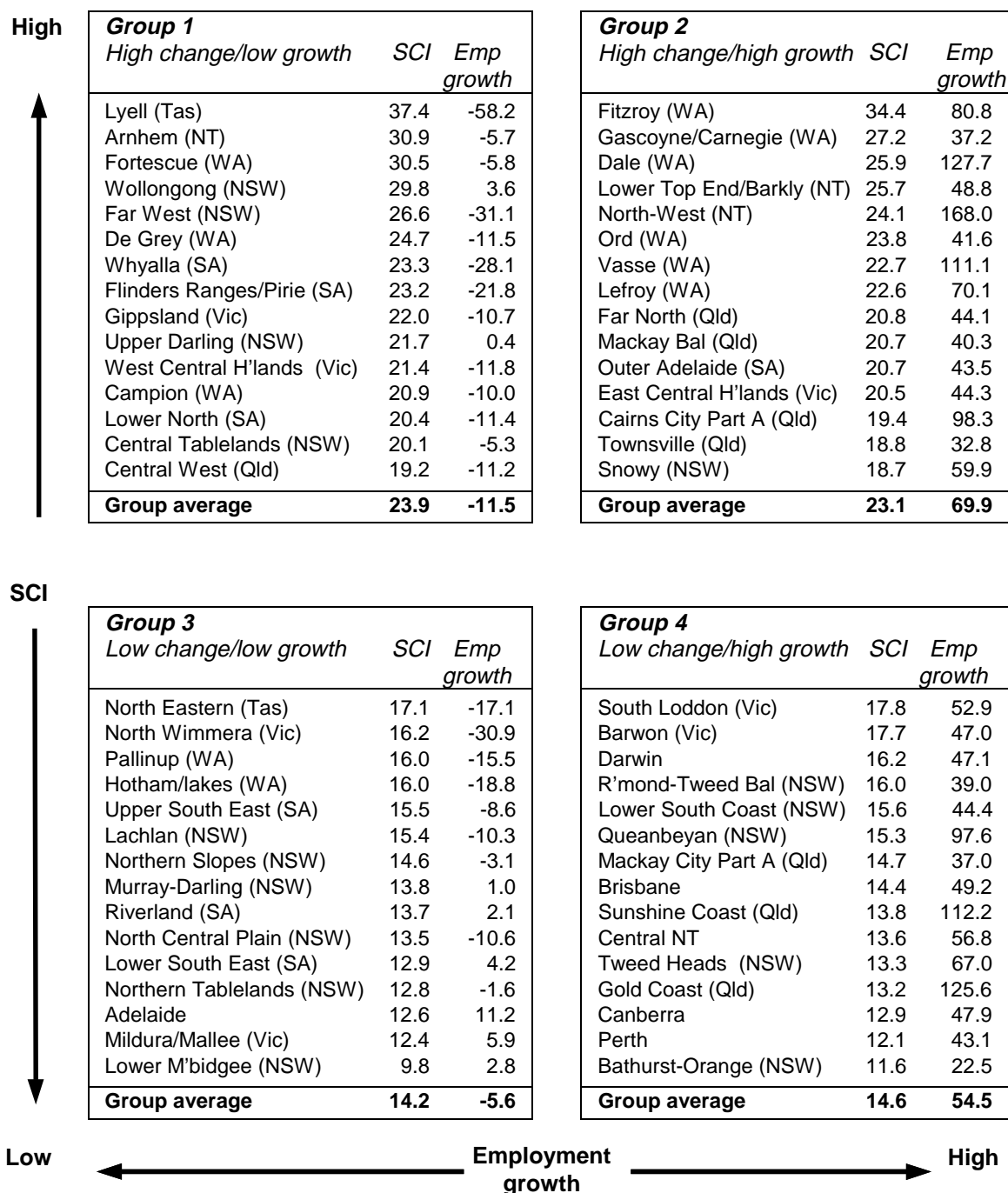
Figure 3.7 Structural change in city^a and country regions, 1981–96



^a 'City' includes capital cities plus Newcastle, Wollongong, and Geelong.

Sources: PC estimates based on ABS (1998c); ABS (unpublished 1996 *Census of Population and Housing* data); and PC (1998b).

Figure 3.8 Structural change and employment growth, 1981–96



Note: Regions are based on Australian Bureau of Statistics (ABS) statistical divisions (SD) and statistical subdivisions (SSD). The Commission merged some SSDs due to inconsistencies in the data series between 1981 and 1996. These included: *Arnhem* (Alligator and East Arnhem SSDs), *Outer Adelaide* (Kangaroo Island, Onkaparinga and Fleurieu SSDs), *Barwon* (East Barwon and West Barwon SSDs), and *Townsville* (Townsville and Thuringowa SSDs). The data from PC 1998b have since been further modified using more recent ABS Census data due to problems arising from boundary changes between 1981 and 1986. This resulted in revised employment growth estimates for West Central Highlands in Group 1 (revised from -27.5 to -11.8) and East Central Highlands in Group 2 (revised from 65.3 to 44.3) and the replacement of Moreton Balance by Townsville (Group 2) and Greater Shepparton/North Goulburn by Barwon in Group 4.

Sources: PC (1998b) and unpublished ABS Census data.

Figure 3.8 shows the top 30 regions (high change, and either high or low employment growth) and the bottom 30 regions (low change, and either high or low employment growth). For example, the group ‘High change/low growth’ contains the 15 regions with the highest SCI ranking regions which also had low employment growth. Many other regions fell between Groups 1 and 3, or between Groups 2 and 4, and are not shown in figure 3.8 (but are reported in PC 1998b).

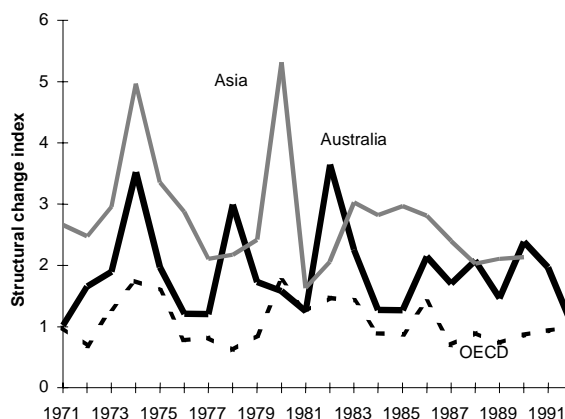
- *High change and low growth regions:* All but two regions in this group had employment falls. The sharpest decline — nearly 60 per cent — was in Lyell (Tasmania), where employment in metallic minerals fell from 2000 workers in 1981 to 600 in 1996 (largely at the Mount Lyell copper mine). Job losses in electricity and gas accounted for a further 1000 jobs. Job losses in the electricity and rail industries were significant in the Flinders Ranges/Pirie region in South Australia. Also in South Australia, Whyalla experienced substantial change because of the decline in the base metals industry.
- *High change and high growth regions:* This group contains several remote regions with structural change driven by a core industry. Increases in mining contributed substantially to employment growth in the Gascoyne/Carnegie and Lefroy regions. Tourism contributed to strong growth and high structural change in Cairns. The group also contains high growth regions close to large cities, such as Outer Adelaide (SA) and the area around Townsville (Queensland).
- *Low change and low growth regions:* These regions are mainly rural, with agricultural employment shares of around 30–50 per cent. Agricultural activities in the Mildura-Mallee region, for example, accounted for 33 per cent of total employment in 1981 and 25 per cent in 1996. This type of stability saw the region register a low SCI and employment growth below the national average.
- *Low change and high growth regions:* Employment in this group grew at more than double the national average. These regions had low rates of structural change and more than half had service sectors which accounted for more than 80 per cent of employment in 1981. This group is the most urbanised — it includes Perth, Canberra, Brisbane, Darwin and coastal areas in New South Wales and Queensland. Australia’s two largest cities, Sydney and Melbourne, had low SCIs (15.7 and 16.2) respectively, as well as employment growth rates lower than the other capital cities.

It can be seen that those regions with bigger than average service sectors (Group 4), and more balanced regional economies (Group 2), have experienced the highest growth rates since 1981; while those regions with above average reliance on agriculture (Group 3) and mining (Group 1) have had low rates of growth since 1981. The Group 1 regions also include many areas in which industries subject to restructuring or rationalisation account for a significant share of local employment.

Job losses associated with industry restructuring (for example, in the electricity industry) can have major employment impacts.

The diversity of regional experience is due, in part, to particular characteristics of different regions. The experience of regions in Groups 2 and 3 shows that, while strong growth and employment outcomes can be consistent with having a limited number of dominant industries, such regions are vulnerable when those industries experience a downturn.

Figure 3.9 Structural change indexes in selected countries, 1971–92



Source: PC (1998b).

The general pattern of structural change is not unique to Australia. Figure 3.9 shows that trends in structural change are broadly similar across a range of countries. For example, all responded in much the same way to the oil shocks of the 1970s. The extent of structural change, however, does differ. Australia shows a higher rate of change than OECD countries, but less than in Asia.

FINDING 3.2

Since the early 1980s, both the level and the variability of structural change has been greater in country Australia than the cities.

FINDING 3.3

High rates of structural change in country Australia do not necessarily involve employment losses. Similarly, low rates of structural change are not always associated with high employment growth.

3.3 Drivers of change

It has been shown that the employment experience of different regions over the 1980s and 1990s has depended in part on their industry structure. This section looks at why some industries have performed more strongly than others. Some general factors driving the broad changes in the pattern of the economy are discussed first. These include changing transport patterns, rising incomes and changing lifestyle

preferences which are behind the rising importance of services, and general productivity growth.

Then more specific influences on the performance of the primary industries are considered, given the continued importance of mining and agriculture in many parts of country Australia.

Factors affecting the cost structures of industries in the service sectors are also discussed. These include productivity growth and technological change.

Finally, some other factors influencing the pattern of economic activity (eg industry assistance) and emerging factors which could affect regional economic performance in future years (eg resource access) are discussed briefly.

Transport and regional development

Improved transport links have played an important role in the geographical distribution of economic activity, facilitating the concentration of activity into a limited number of regional and urban centres close to the main consumer markets.

At the turn of this century, for example, Australia was largely agricultural. Because of the dispersed population associated with a largely agricultural workforce, manufacturing was highly decentralised throughout regional Australia. This offset the high transport costs of distributing goods to consumers.

Over time, rising agricultural productivity has enabled a smaller share of the population to be devoted to growing food. In conjunction with improved road and rail links and long-term reductions in the costs of transport, manufacturing became more geographically concentrated into a limited number of regional centres. This gave manufacturers the advantage of being closer to an increasingly urbanised and skilled workforce, and the ability to obtain economies of scale, while lower transport costs reduced the costs of transporting goods to rural consumers.

Improvements in the quality of personal transport have also contributed to centralisation of economic activity in regional centres over time. Better roads and faster, more reliable and more comfortable cars mean that it is easier to commute longer distances between home, work and leisure activities. This allowed people to travel further for shopping and other activities, adding to the adjustment pressures experienced by small towns unable to match the facilities offered by the regional centres.

Box 3.2 presents a snapshot of a small community in a cane growing region in North Queensland. This community has experienced a considerable change in economic circumstances, with significant social implications, over the course of this century.

Box 3.2 Changes in a rural Australian community: Finch Hatton, Queensland

The first farm was established in 1891. A sugar mill was established to crush the cane in 1906. By 1910 the town's population was 266, while the population of the surrounding area was 500. In addition to sugar, the area supported dairying, sawmilling, and some gold mining. Initially, travel to the nearest settlement took two days. The establishment of the rail link to Mackay reduced the trip to a couple of hours. By 1913 the town supported a primary school, the sugar mill, three hotels, a number of general stores, a cordial factory, two blacksmiths, two billiard rooms and three refreshment rooms.

The increased productivity from the mechanisation of cane farming enabled the consolidation of farms into larger establishments with lower labour requirements. Replacing the horse and plough with tractors and bulldozers opened up further land to cane production while the cane harvester replaced the cane cutters. The consolidation of farms, improved transport and the economies of scale available from larger mills led to the closure of the mill. In 1936, 134 cane farms produced an average of about 900 tons of cane per year per farm. Today there are 51 farms in the district producing on average 3400 tonnes of sugar cane per year which is transported to larger mills in other centres.

With improved roads and motor vehicles, larger centres became more accessible. The sealed road reduced the trip to Mackay to under an hour. As a result, shopping and entertainment patterns changed, and services such as schools were consolidated.

From a peak of over 1000 at the beginning of the Second World War, the population currently consists of 350 people in the town and 250 in adjacent districts. While cane farming remains the dominant industry, other activities have emerged to diversify the economic base of the community, such as tourism, and mango processing for export markets. Reflecting changes in land use, there has been a trend for people to move to acreage blocks which were originally small cane farms and commute to Mackay in around 45 minutes to work. Despite its decline in size, there remains a strong sense of community, with the town winning a 1999 Tidy Town award and continuing to boast the best one day show in Queensland.

Source: Mirani Shire Council (unpublished information).

These changes have been the result of technological progress, including improved methods of transport which pre-date National Competition Policy (NCP) by many decades. Communities in other agricultural regions have been subject to similar changes as a direct result of ongoing changes in technology, particularly the mechanisation of agriculture, and improved transport and infrastructure. These

trends are continuing. Freight transport costs between major routes have fallen considerably over the last 30 years. These cost reductions have been reinforced by ongoing reforms in road, rail and air transport (see chapter 5).

While the ‘sponge city’ phenomenon has been particularly prevalent in the wheat-sheep zones of New South Wales, Western Australia and Victoria (chapter 2), it is not a uniquely Australian phenomenon. As box 3.3 shows, a similar pattern of development occurred in the prairie regions of Canada.

Box 3.3 Structural adjustment — a Canadian perspective

The development of rural Saskatchewan was influenced by legislation (such as homestead acts) and the technology of the late nineteenth and early twentieth century. These resulted in a dispersed pattern of small farms. An extensive network of railways was developed across the prairie to carry rural products, particularly wheat, to world markets. This network provided lines to within 16 kilometres of nearly every farm, and grain sidings were constructed along the track, on average only 5 kilometres apart. Other businesses developed around the grain sidings to service rural industries and the number of mostly small communities in Saskatchewan peaked at more than 900.

Technological advances made this pattern of settlement across Saskatchewan obsolete. The mechanisation of agriculture reduced labour-intensive processes. Roads were upgraded and more reliable motor vehicles reduced the need for people to stop at small communities en route to their destination. Improvements in phone systems and the reorganisation of the school system into larger schools reduced the need for the network of small communities which had developed to service agriculture.

The shopping patterns of the rural population changed in response to the improved roads and more reliable cars — small and intermediate sized towns were bypassed for larger towns which could provide greater variety and lower prices. Longer trips to larger centres became the norm. Consequently, many small rural communities declined as commercial outlets and public infrastructure and services were withdrawn. However, some communities were able to consolidate and become larger.

While the production of wheat and other grains remains the most important agricultural output in Saskatchewan, the number of farms has declined and farm size has increased. For example, the number of farms declined from 142 000 in 1936 to just over 60 000 by 1991. The rural population represented 70 per cent of Saskatchewan’s population in 1936 — by 1991 it accounted for only 37 per cent.

Sources: Olfert (1997); Olfert and Stabler (1992).

Nor are the concerns about the centralisation of economic activity in cities and regional centres a recent phenomenon. It was reported in the *Town and Country* in 1889 — more than a century ago — that:

The present arrangements suit the city ... At present there is but one centre and everything goes toward it. It is this terrible concentration of centralism which is so

objectionable and dangerous. (quoted in McKillop 1999)

Rising incomes and changing lifestyle preferences

As Australia's population has grown, so too have personal incomes. This can be seen by the fact that real GDP per capita rose from just over \$18 000 in 1971-72 to almost \$30 000 in 1996-97 (in 1996-97 dollars). As real incomes rise, the proportion of income spent on basic necessities, such as food and clothing goods falls, while the proportion spent on services such as education, health, recreation, travel and tourism, increases. As national incomes rise, therefore, these changes in spending patterns drive a substantial shift in the sectoral composition of the economy. This broad trend was shown in figure 3.1.

The geographical implications depend in large part on where service sector jobs, and hence population, can locate. Some jobs — for example, in mining and agriculture — are constrained by the availability of mineral deposits or suitable soils. Manufacturing jobs are often, but not always, located in urban centres which offer better access to a skilled workforce and transport cost savings. New developments in computer and communications technology are reducing the need for the providers of some services and their customers to be close to each other.

Changing lifestyle preferences and the locational flexibility of some service industries mean that the growth of the services sector has afforded many regional areas, particularly coastal and other areas offering lifestyle advantages, with significant job opportunities. Those regions which are well placed to take advantage of rapidly growing service industries such as tourism (see box 3.4) have enjoyed an increase in economic activity and employment. For other service industries, however, location and the economies of scale afforded by size and/or proximity to a skilled labour force may continue to favour their centralisation in cities or larger regional centres.

Another important lifestyle trend over the last ten years or so has been the so-called 'coastal drift'— the increase of population in coastal areas along the eastern seaboard and the southwest corner of the continent. Retirees seeking an agreeable climate and lifestyle is one important factor explaining the growth of some coastal regions. Moreover, their demand for medical, recreational, housing, and banking and financial services creates opportunities for the providers of these services, thereby 'pulling in' other demographic groups and contributing to the economic growth of these regions.

Box 3.4 **The growth of tourism**

The rapid growth of Australia's tourism industry is linked to both rising incomes and to Australia's natural attractions — its climate, beaches and geographical features.

The average number of overseas visitors increased from one million in 1984 to almost 4 million by 1995, an average growth rate of 13 per cent per year. This contributed to new hotel and tourist resort developments, and growth in amusement and theme parks, restaurants and tour services for tourists.

Expenditure associated with inbound tourism was allocated unevenly between capital city and non-capital city regions, with considerable State variation as well. For instance, the capital/non-capital city proportions were approximately 90/10 in New South Wales, Victoria, South Australia and Western Australia; 20/80 in Queensland and the Northern Territory; and 50/50 in Tasmania (PC 1999c). Consequently, the growth of tourism is more likely to have had direct implications on a broad scale for country Australia in Queensland, Tasmania and the Northern Territory, although it has also been an important driver of structural adjustment in some coastal regions.

Tourism has boosted activity in regional economies such as north Queensland and south-west Western Australia, and in some regional economies which have been adversely affected by the depletion of natural resources. For example, in Eden in New South Wales, tourism has provided new employment and business opportunities, which has reduced the impact of the scaling down of commercial logging and fishing activities.

Productivity growth

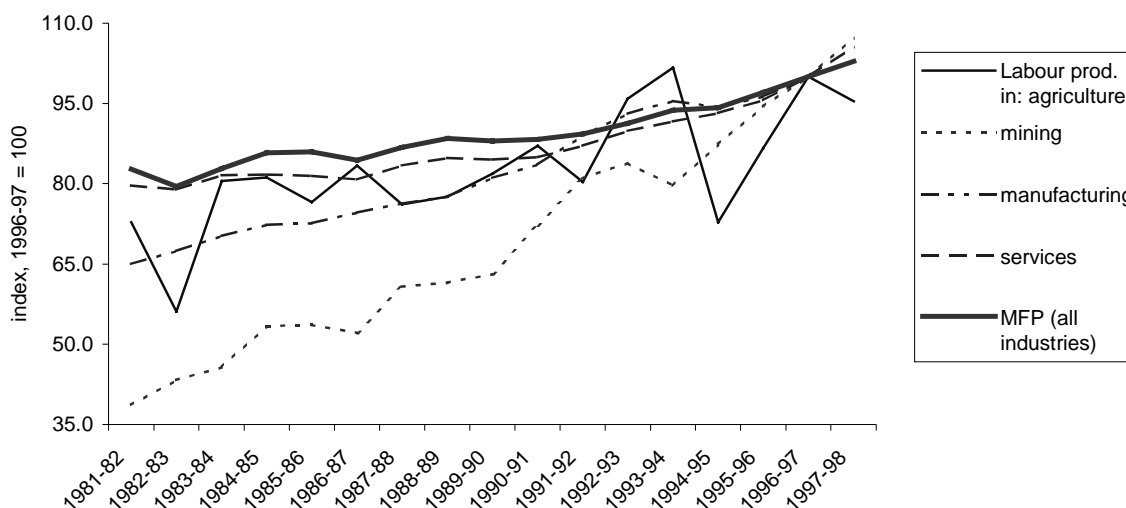
Productivity, or the output produced per unit of labour and capital, is an important source of change in an economy. Australia's rate of multi-factor productivity (MFP) growth has increased during the 1980s and 1990s (figure 3.10). It averaged 2.4 per cent a year over the period 1993-94 to 1997-98, compared with an annual average rate of 1.4 per cent since 1964-65 (Parham 1999).

Figure 3.10 also shows labour productivity growth in each broad sector. The volatility of labour productivity in the agricultural sector is clear; mining and manufacturing have experienced steadily rising labour productivity, while labour productivity growth in services has closely tracked the overall trend in MFP.

The trend of increasing MFP lies behind the rising incomes and structural change described earlier in this chapter. However, as productivity growth has varied between sectors and industries, so have the regional effects of productivity growth. These variations can be influenced by the particular source of productivity growth — whether it is relative price changes, increased investment, better labour

productivity, or technological development. This is discussed below in the context of agriculture, mining and services.

Figure 3.10 Aggregate MFP, and labour productivity growth by sector, 1981-82 to 1997-98



Sources: updated from Gretton and Fisher (1997); Parham (1999).

Agriculture

A large proportion of Australian agricultural products is sold in international markets (see table 3.2). In volume terms, exports as a proportion of annual production of agricultural commodities ranges to well over 80 per cent for major products such as wool, cotton and sugar. Grains, beef and lamb also depend significantly on export markets.

In international markets, Australia's primary producers are generally 'price takers'. Over the last four decades, world prices for many agricultural commodities have declined significantly in real (inflation-adjusted) terms. Domestically this has seen the prices received by farmers increasing less rapidly than inflation and, importantly, less rapidly than the price increases for farm inputs. An indication of the net price effect, or farmers' terms of trade, is provided by changes in the ratio of prices received and prices paid by farmers in Australian dollars.

Figure 3.11 shows that there has been a long-term downward trend in farmers' terms of trade since the mid-1950s, notwithstanding the substantial year-to-year fluctuations. In the mid-1950s, the ratio of the costs of production relative to the prices received by farmers for their output, was four times higher than it is today.

In response to these sustained price pressures, farmers have made significant productivity improvements. Over the two decades to the mid-1990s, output increased, on average, by almost 2 per cent a year (see figure 3.12).

As indicated in figure 3.12, the average increase in output has been achieved from productivity improvements, with a net reduction in labour inputs and a very small net increase in the amount of capital invested in the sector.

There has been considerable variation in the productivity response of different agricultural industries. Productivity growth has been much higher for broadacre cropping industries than for broadacre livestock. It has also been higher in the wheat–sheep zone than in the pastoral or high rainfall zones (Martin *et al.* 1999).

There has also been some regional variation. Agricultural productivity has

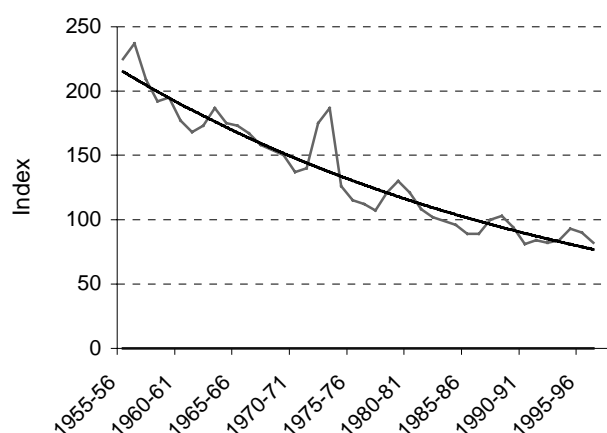
Table 3.2 Export orientation of Australia's agricultural sectors, 1996-97

<i>Commodity</i>	<i>Export orientation^a</i>
	per cent
Grains	
Wheat (unprepared) ^b	77.4
Barley (unprepared) ^c	64.0
Rice	40.3
Lupins	56.5
Industrial crops	
Raw cotton	83.1
Sugar	81.3
Meat	
Beef and veal ^{d,e}	38.9
Lamb and mutton ^d	35.1
Pig meat	2.1
Wool^f	>100
Other products	
Cheese	44.9
Skim and wholemilk powder	81.0

^a Export volumes in kilotonne as a proportion of domestic production. ^b Includes the wheat equivalent of flour. ^c Includes the grain equivalent of malt. ^d For exports, covers shipped weight (fresh, chilled or frozen). For domestic production, covers carcass weight for production and includes carcass equivalent of canned meat. ^e Includes meatloaf. ^f Reflects sales of stocks.

Source: ABARE (1998d).

Figure 3.11 Farmers' terms of trade, 1955-56 to 1996-97



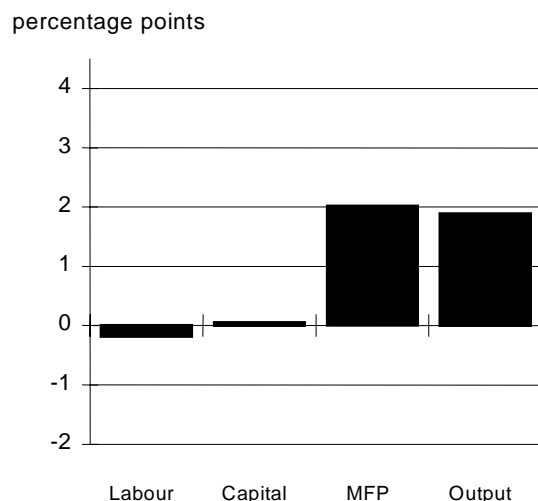
^a Ratio of index of prices received by farmers, in Australian dollars, to index of prices paid by farmers. Index 1987-88=100.

Source: ABARE (1997).

grown more slowly in Queensland, Tasmania and, to a lesser extent, New South Wales than in Victoria, South Australia and Western Australia (PC 1999c). In the cases of Queensland and New South Wales, this may also reflect the drought in the early to mid-1990s.

An important means by which farmers improve productivity is by consolidation of farm holdings in order to achieve better economies of scale. Hence farm sizes have

Figure 3.12 Contributions to average annual output growth for agriculture^a, 1974-75 to 1995-96



^a Agriculture, forestry, fishing and hunting. MFP (multi-factor productivity) estimated by subtracting contribution due to labour and capital from output growth.

Source: Commission estimates based on Gretton and Fisher (1997).

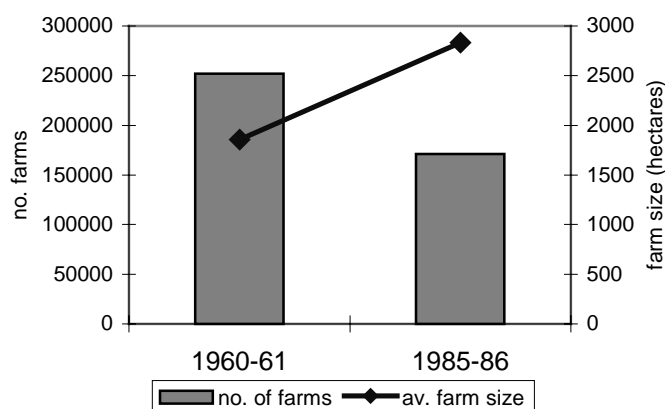
increased across most farm sectors, with an accompanying decline in the number of farms (see figure 3.13).

These trends have continued in subsequent years. The average rate of decline in the number of farms over the decade to 1994-95 was 1.3 per cent a year (ABARE 1998a). The dairy industry had the highest annual average decline (2.2 per cent), with smaller farms leaving the industry and the remaining farms becoming larger. Broadacre agriculture registered the second largest rate of farm decline, but lost the most establishments in absolute terms.

driving the structural change in many rural regions reliant on traditional agricultural commodities (Group 3 in figure 3.8). For example, the rate of job loss in the broadacre sector has been above the agricultural industry average of 2 per cent since the mid-1970s. In contrast, there has been significant employment growth in the horticultural sector in a number of States. These patterns have implications for employment, services, and adjustment pressures in country areas.

As the Wheatbelt Area Consultative Committee

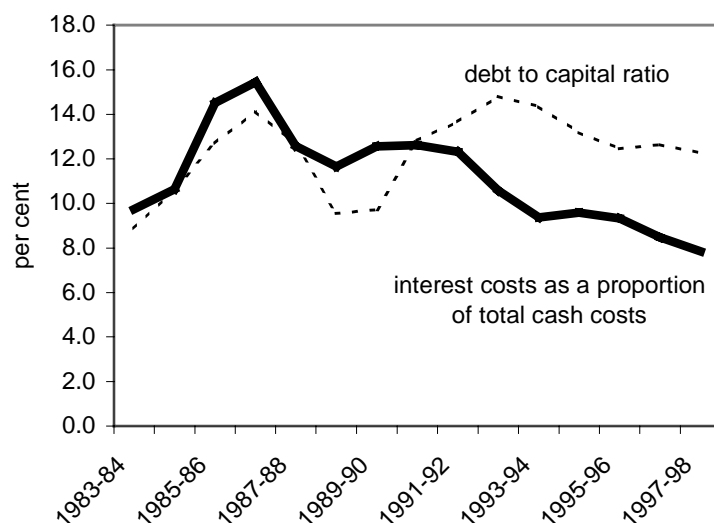
Figure 3.13 Number of agricultural establishments and average size^a, 1960-61 to 1985-86



^a The ABS uses estimated value of agricultural output (EVAO) to determine those establishments within the scope of the agricultural census. For the period 1960-61 to 1985-86, the EVAO cutoff was set at \$2500.

Source: ABS (1996).

Figure 3.14 Interest costs as a proportion of total cash costs and the debt-to-capital ratio^a for the average broadacre farm, 1983-84 to 1997-98



^a As at 30 June.

Source: ABARE (1999).

witnessed the trend towards larger and larger farms, combined with significant advances in farming methods and equipment technology. (sub. 20, p. 1)

Finally, there is a perception that farmers are facing increasingly high debt levels. In 1997-98, the average broadacre farm was estimated to have more than \$150 000 of debt and to have paid over \$12 000 in interest on that debt (ABARE 1999).

However, broadacre farmers have increased their debt-to-farm-capital ratio only slightly over the last 15 years. The ratio has actually fallen since 1993 (figure 3.14). Moreover, debt levels as a proportion of broadacre farm capital, at an average of around 12 per cent, are not high in comparison with other industries. For example, the average ratio in manufacturing is around 50 per cent (IC 1996d).

The impact that these borrowings have had on the cash flow of broadacre farms is illustrated by the ratio of the interest payments to total cash costs (also in figure 3.14). Since the early 1990s interest rates have decreased markedly, helping to reduce the burden of interest payments on farmers.

Inc. of Western Australia has said:

The necessity for agriculture to be and remain internationally competitive has resulted in economies of scale such as increasing farm size, increasing mechanisation and reduction of the labour capital ratio. Inevitably these have had an impact on population. (sub. 41, p. 7)

This was echoed by the Eyre Regional Development Board:

Over the past several decades, Eyre Peninsula has observed a contraction of the number of people employed in agriculture, as economic necessity has

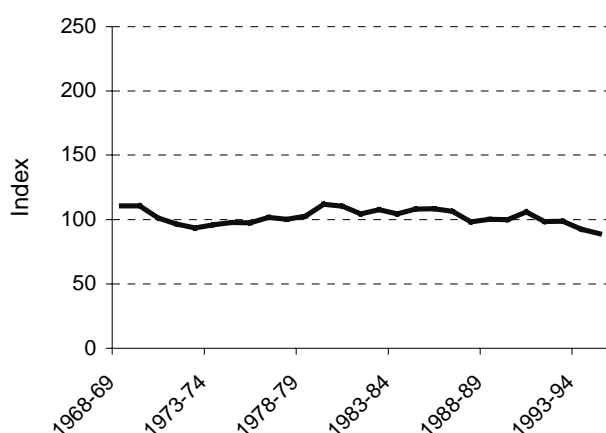
Mining

Mining is even more reliant on overseas demand for its output than is agriculture. In volume terms, the proportion of Australian mineral production which is exported ranges from around 70 to almost 100 per cent (table 3.3).

Notwithstanding Australia's significance as a major producer of mining and energy-based products — it is among the world's top three producers of most major mineral commodities except black coal and nickel — Australian mining industries are still price takers on world markets and, consequently, are vulnerable to changes in world prices.

The world prices for several major mining commodities have declined over the last few decades. For example, the world coal price fell by 2–3 per cent a year between 1988 and 1998, and around 28 per cent over the last three years (Graham 1999); the world price of gold fell from around US\$1200/oz in 1980 to US\$260/oz in 1999; and the world price index

Figure 3.15 **Mining industries' terms of trade^a, 1969-70 to 1994-95**



^a Ratio of index of prices received by miners in Australian dollars to index of prices paid for material and service inputs by miners. Index 1989-90 = 100.

Source: PC estimates.

Table 3.3 **Export orientation of Australia's mining sectors, 1996-97**

Commodity ^a	Export orientation ^b
Crude oil and condensate	39.9
LPG	63.9
Uranium	95.1
Coal	70.2
Iron ore	89.6
Manganese ore	78.2
Alumina	83.1
Rutile	94.4
Zircon	92.9
Gold ^c	>100.0

^a Specified in volume terms: megalitre (ML), megatonne (Mt), kilotonne (kt), and tonne (t). ^b Volume of exports as a proportion of domestic production. ^c Reflects sale of stocks and re-exports.

Sources: PC estimates; ABARE (1998d).

for base metals fell from just under 300 in 1989-90 to 100 in 1997-98 (Davies et al. 1999).

Despite these price reductions, the net price pressures faced by miners since the 1980s — as reflected in the terms of trade for mining — have been relatively flat since the early 1970s. The terms of trade for mining are shown in figure 3.15.

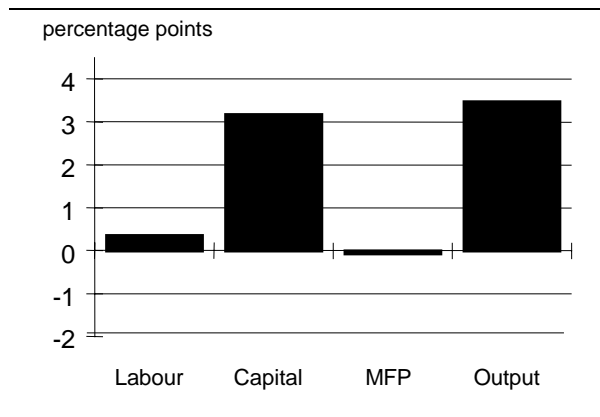
Mining output increased strongly between 1974-75 and 1995-96, by an average of almost 3.5 per cent a year (figure 3.16). In many cases, increased output followed new

technological developments which either reduced the ore grade at which mining is economically viable (such as gold in the early 1980s), or increased the effectiveness of exploration (such as oil and gas in the early 1990s).

These technological developments, as well as an increase in (State and Commonwealth) government-funded exploration expenditure, have led to an increase in investment which has been the major factor behind expanding mineral production (shown by the increase in capital in figure 3.16).

Thus, in mining, the increased output appears to have been driven by increased capital investment, whereas in agriculture it has been driven by increased productivity. It is possible, however, that the contribution of productivity growth to increased mining output over the period may have been underestimated because exploration, which has experienced productivity improvement, has been excluded.

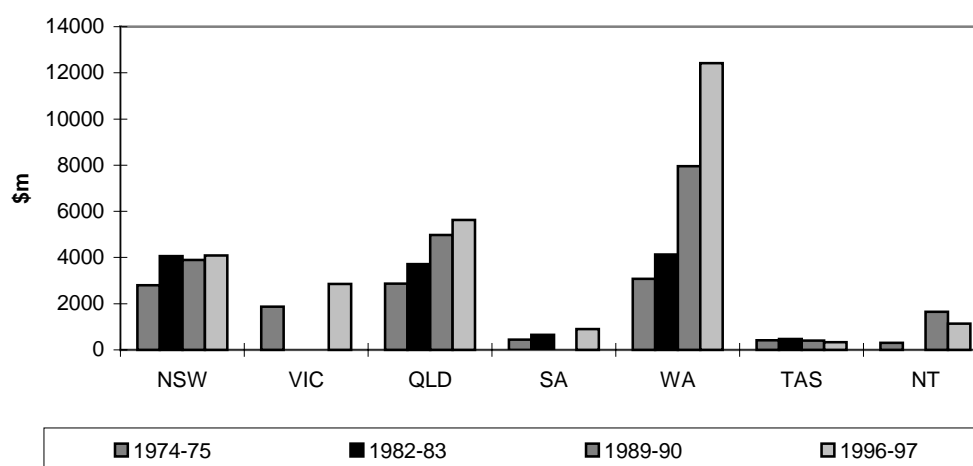
Figure 3.16 Contributions to average annual output growth for mining^a, 1974-75 to 1995-96



^a Labour is measured by total hours worked. MFP is multi-factor productivity and is estimated by subtracting from output growth, the contribution due to labour and capital.

Source: PC estimates based on Gretton and Fisher (1997).

Figure 3.17 Mining output by State (all minerals)^a, 1974-75 to 1996-97
Constant value (base year 1989-90)



^a metallic minerals, coal, oil and gas, and construction minerals.

Source: ABS (*The Australian Mining Industry*, Cat. no. 8405.0, 8414.0).

Figure 3.17 shows changes in mining activity at the State and Territory level. The figure shows that while mining has become more important in New South Wales, Victoria, and particularly Queensland, Western Australia's dominance has also increased significantly over the last 20 years.

At the regional or local level, the discovery or depletion of a mineral resource can have significant employment ramifications. Since growth in aggregate mining output has been reasonably strong, the changing regional impacts of mining are likely to be driven less by terms of trade pressures than by local factors such as resource depletion and the changing nature of mining projects (box 3.5).

Box 3.5 Local impacts of mining

Since 1967, mining-related activity has been responsible for 25 new towns, 12 new ports, 20 airfields and 1900 kilometres of rail track (DPIE 1998c). In some instances, mining companies were compelled, as a condition of mining leases, to provide townships. In recent years, tighter environment protection standards, changing lifestyle preferences of mine workers and their families, and new cost-recovery imperatives for major public infrastructure assets, have all changed the nature of new large scale mining projects. In addition, the use of fly-in fly-out (FIFO) employment practices have become more commonplace for new mining projects. This reduces the local employment impacts of new mines, both because the resident population is reduced and because employment opportunities in other sectors (retail, schools, construction etc) are correspondingly curtailed.

The Regional Development Council of Western Australia said FIFO 'does not contribute to further regional development and employment' (sub. 33, p. 15). On the other hand, the development of some more marginal operations would not have proceeded had mining companies been required to provide permanent social infrastructure, as in the past.

FIFO is being driven by technological change which has made FIFO more cost effective and, most importantly, by the preferences of workers and their families, who often prefer to live in a provincial or major urban centre. The increased use of FIFO avoids the significant infrastructure costs of building single-industry mining towns (such as start-up and closure costs) and the adjustment problems that tend to emerge in towns with a narrow economic base. It also makes smaller projects more viable and allows mining companies to utilise the more diversified range of labour skills available to employers in larger centres.

Services

Rising incomes are driving the increased demand for services as a share of GDP. In addition, efficiency improvements in many service industries have contributed by making services cheaper. In many cases, these efficiency gains are the result of

structural reforms which have brought about productivity improvements — electricity and communications are examples. Other service industries have been at the heart of significant technological advances, as in the information and communications sectors. Advances in communications technology have also triggered significant changes in the way other services, such as banking, are delivered.

Table 3.4 shows the productivity changes for the major service industries between the mid-1980s and mid-1990s. The industries which achieved the biggest productivity improvements were EGW, finance and insurance, and communications.

Productivity growth can have regional employment and output effects. For example, the productivity growth in EGW since the mid-1980s (figure 3.18) was accompanied by a reduction in the size of the labour force, which fell by 2 per cent between 1984-85 and 1997-98. This has had an economic impact on regions in which EGW are important sources of employment; job losses associated with this productivity growth have been an

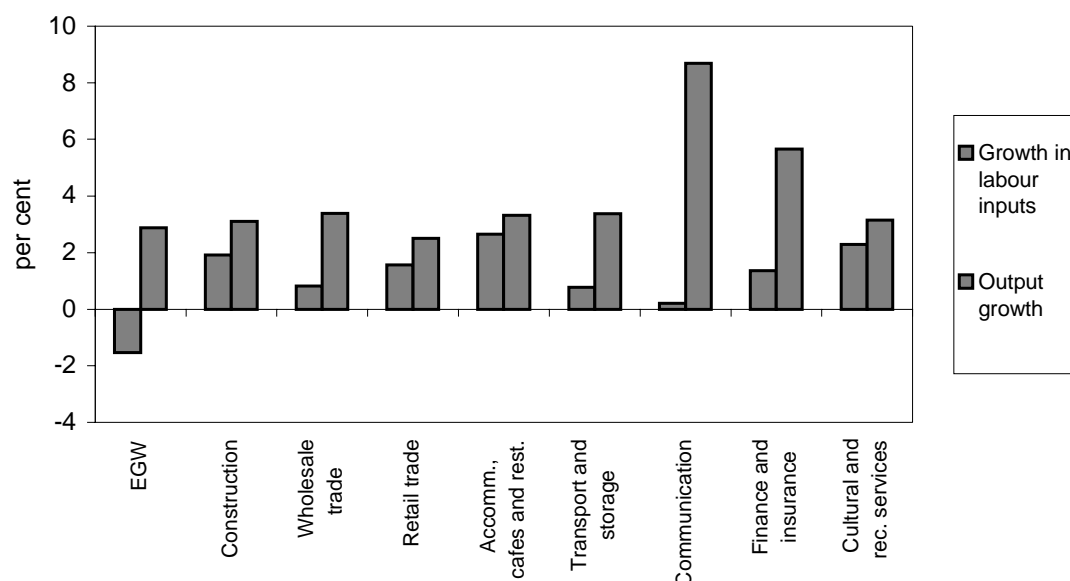
Table 3.4 Productivity growth in key service industries, 1985-86 to 1995-96

<i>Industry sector</i>	<i>MFP^a</i>
Electricity gas and water	3.8
Construction	0.9
Wholesale trade	1.9
Retail trade	0.2
Accom., cafes and restaurants	-1.6
Transport and storage	0.9
Communication	2.1
Finance and insurance	2.5
Cultural & recreational services	-1.6

^a Multi-factor productivity.

Source: Updated from Gretton and Fisher (1997).

Figure 3.18 Growth in output and labour inputs for key service industries, 1985-86 to 1997-98



Source: PC estimates based on unpublished ABS data.

important source of structural change in areas such as Gippsland (Victoria) and Flinders Ranges/Pirie (South Australia).

In other service industries, productivity growth has been associated, at least at a national level, with job gains. Even where productivity growth is associated at the local level with short term job losses, lower prices can lead to cost reductions for other local industries. In the longer term, the improved productivity and profitability of such enterprises can play a significant role in revitalising regional economies by attracting new activities and industries.

Other factors driving the pattern of the economy

Trade and industry assistance

The level and pattern of government assistance provided to Australian industries has changed significantly over the last 25 years. Assistance levels provided to most agricultural and manufacturing industries have been reduced considerably, although the extent of the reductions in assistance has varied markedly. The clothing and footwear, textiles, transport equipment (including passenger motor vehicles), paper and printing, fabricated metal products, other machinery and equipment, tobacco growing, dairying, eggs, citrus, dried vine fruits and sugar industries have experienced the largest reductions. Many of these industries have a significant presence in country Australia.

Most agricultural industries, like most manufacturing industries, now have low levels of assistance. The overall level of assistance to agriculture is dominated by the high level of assistance provided to the dairy industry (PC 1998f). In the case of manufacturing, only the motor vehicle and textile, clothing and footwear industries still receive substantial assistance.

While the industries which have had their assistance reduced have faced adjustment pressures, assistance reductions directly benefit other industries, including many in country Australia. Examples include lower tariffs on plant and machinery and other inputs used by agriculture. The Commission has estimated that the tax effect of tariffs on inputs for the agriculture sector fell from \$106 million to \$57 million over the relatively short period from 1992-93 to 1996-97 (PC 1998f).

Reduced levels of assistance have contributed to higher overall economic growth (PC 1998d). Some manufacturing industries have become more export-oriented. In the agricultural sector, reductions in assistance have led to changes in the relative competitiveness of different industries, with some declining and others expanding.

Reduced assistance is thus a source of structural change in both country areas and cities.

Labour market flexibility

A feature of the Australian industrial relations system which has influenced structural change in country Australia has been the high degree of labour market rigidity. This has made it more difficult than it otherwise would have been to achieve productivity gains through greater workplace flexibility; such gains could have helped to cushion the impact of declining commodity prices and other sources of adjustment in country areas.

Over the past decade, however, the wage system has become increasingly flexible through the introduction of enterprise bargaining and a reduced role for centralised wage determination. The awards are now becoming a minimum standard, or 'floor', below which pay and conditions cannot fall because of the 'no disadvantage' clause.

This floor can still be an issue for those regions, or industries, which are in decline. As the Industry Commission said in an earlier inquiry into regional adjustment:

... where award wages are binding there is little scope for regions facing difficulties to better position themselves to ride out a regional shock and to improve their competitiveness. (IC 1993b, p. 108)

However, this wage floor should become less relevant over time as improved workplace flexibility leads to better labour productivity and higher real wages, such that the floor is well below the 'market' level of wages. Continued reforms to labour markets will make it easier for rural and regional Australia to respond to economic shocks by changing work practices, thereby improving productivity and lowering costs. In the meantime, though, the capacity of firms in regionally depressed areas to attempt to re-establish some degree of competitiveness vis-à-vis other regions may remain constrained to some extent by the industrial relations system.

Regional infrastructure policies

Historically, a key feature of government regional development policies has been the subsidised provision of major infrastructure — such as highways, dams and irrigation networks — and the supply of associated services at prices considerably below the costs of their provision. Large infrastructure projects such as the Ord River and the Snowy River irrigation schemes, and the soldier settlement schemes, have driven the patterns of regional development in many areas.

From the 1980s through to the CoAG Agreement in 1994 and NCP in 1995, the provision of major infrastructure assets has been subject to considerable reforms requiring cost recovery through cost-reflective pricing and appropriate asset valuation, removal of barriers to entry, and competitive neutrality between public infrastructure providers and private sector competitors.

Thus far, reforms are most advanced in the gas and electricity sectors and, as already suggested, these have led to considerable structural change in parts of country Australia. Other sectors such as water and transport have yet to complete their reform programs. These issues, which are discussed in detail in part B of this report, could have significant implications for future structure and growth of some country areas.

Access to natural resources

Native forests have long provided an important source of employment for rural communities. For example, in the Eden forest region, 12 per cent of employed people are employed in sawmilling and woodchipping (DPIE 1998).

The forestry industries have experienced considerable structural change as a result of changes in the availability of logs and pressure to increase their competitiveness. For example, in Western Australia:

The starting point was ... 1960. At this time, significant modernisation of the timber industry began and the issue of forest conservation for values other than timber began to be addressed. ... Many major mill closures occurred in the 1970s and 1980s. However, adjustments are still occurring with older, less efficient mills closing ... Production facilities are becoming larger, more efficient and more centralised. Processing and value adding of timber products occurs at large regional centres and logs are transported over larger distances. (WA 1998, p. 104)

More recently, some potentially significant changes in the forestry industry's ability to gain access to native forests may result from the Regional Forest Agreements (RFAs) currently being implemented. RFAs have been, or are in the process of being, put in place for each major native forest area in New South Wales, Victoria, Tasmania, Western Australia and Queensland. Additional reductions in wood availability resulting from the RFAs will increase the pressures for structural change and could have significant economic and social consequences for some forest-based communities. In Tasmania, for example, the increase in the area of forest reserved for conservation was estimated to lead to a reduction in output from sawn timber and woodchip mills of 5 per cent and 6 per cent, respectively, in 1998, rising to 6.5 per cent for sawmills and 13 per cent for woodchip mills by 2020 (Dann et al. 1997, table 17).

The *mining industry's* access to public land for mineral exploration and mining has been made less certain as a result of legislative and judicial decisions relating to native title. Between the passage of the *Native Title Act* in 1993, and June 1998, native title claims were lodged over 54 per cent of Australia's land area, and 82 per cent of Western Australia (these over-estimate the actual area under claim because the boundaries include freehold tenures on which native title has been extinguished, and pastoral leasehold which can co-exist with native title). By August 1999 the number of outstanding claims for native title totalled over 700 (information provided by the National Native Title Tribunal).

Evidence is emerging that native title may be having an impact on mineral exploration in Australia, in particular by redirecting exploration activity away from so called 'greenfields' exploration and towards exploration on existing tenements and licences over known deposits (so called 'brownfields' exploration) which are not subject to native title negotiations. Australian companies are also increasingly exploring offshore (IC 1996b; Davies et al. 1999). These trends have potential long-term implications for mineral production in Australia. This is particularly true for gold, oil and gas, for which known reserves are relatively low, and hence which tend to have active exploration programs. For example, the mining industry has claimed that, in some cases, the costs of negotiating access to land with native title claimants can be as high as 20 per cent of explorations budgets (Wells 1998). To the extent that resolution of native title issues leads to a slowing in the discovery and development of new deposits, these long-term implications may become more apparent once world prices for mineral commodities have recovered and exploration would normally start to rise again.

Resolution of native title issues may also have implications for agricultural producers where pastoral leaseholders are required to negotiate changes in activity with native title claimants — possibly affecting their ability to change activity in response to changing market conditions. For communities in country Australia for which forestry, mining and pastoral industries are significant sources of local employment or output, resource access issues relating to RFAs and native title may limit future adjustment and development options.

Environment protection

There has been growing community concern to protect the environment and, in some instances, to develop remedial programs to repair environmental damage. For example, by 1993, some 7 per cent of Australia's land area had been classified as *nature conservation reserves* (national parks). Almost 60 per cent of the country has been assessed as having a wilderness quality value of 12 (out of a maximum value of 20), while 44 per cent has a wilderness quality value of 15 (East et al. 1997).

While these wilderness indexes are not yet used in land management decisions, they introduce a degree of uncertainty about the terms on which such lands can be developed for mining or forestry activities. At the same time, such areas may be used increasingly for services (eg eco-tourism). Concern about river health as a result of increasing diversions of water for irrigation led the Council of Australian Governments to require that *environmental flows*, or water entitlements for the environment, be considered as part of the water industry reform process. This reduces the volume of water available to agriculture from some of Australia's major inland waterways. For example, it has been estimated that restoring a 25 per cent environmental flow to the Snowy River would reduce water available to irrigators by almost 12 per cent (Scoccimarro et al. 1997). If such increased environmental flows are required, they could add to the adjustment pressures facing irrigators as a result of water pricing reforms, although they also present opportunities for switching to higher value crops and provide farmers with an additional source of revenue from the sale of water entitlements (chapter 5).

Under the December 1997 Kyoto Protocol to the United Nations Framework Convention on Climate Change, developed countries agreed, by 2008–12, to reduce their emissions of *greenhouse gases* by at least 5 per cent from 1990 levels. Australia's agreed target reduction is 8 per cent (Polidano et al. 1999). Reductions in emissions from greenhouse gas sources, and removal of carbon dioxide by emissions sinks such as forestry, will contribute to meeting this target.

The choice of mechanisms to be used to achieve the targets (transferable permits, taxes, etc) may have significant implications for the final economic costs of reducing greenhouse gas emissions. Estimates to date suggest that these costs will be most significant for energy-intensive sectors in Australia, leading to possible substantial reductions in output for the coal, iron and steel, non-ferrous metals, livestock, and meat and meat products industries (Polidano et al. 1999). This could give rise to considerable structural change in country Australia.

FINDING 3.4

Broad long-term economic forces which are beyond the control or influence of governments have been key drivers of the economic and social changes of particular relevance to country Australia. These include: changing technology and increasing productivity; rising incomes and changing lifestyles; and declining world agricultural and mineral commodity prices.

It is against this backdrop of significant ongoing structural change that the impacts of NCP on country Australia are assessed.

Part B The National Competition Policy reforms

Part A of this draft report sought to outline and explain the longer-term influences shaping the economic and social circumstances of country Australia. Part B considers the National Competition Policy (NCP) reforms. Chapter 4 outlines the commitments which the governments of Australia entered into under the NCP. It describes the various elements of NCP.

The remaining chapters seek to assess the current and future impacts of respective NCP reforms. Chapter 5 deals with the infrastructure reforms covered by separate intergovernmental agreements established within the framework of the Council of Australian Governments (CoAG). These agreements, which relate to electricity, gas, water and road transport, were brought within the NCP umbrella in 1995.

Chapter 6 examines structural reforms of government monopolies which are not covered specifically by the CoAG agreements. It includes, for example, reforms to rail authorities and to telecommunications. Chapter 7 focuses primarily on the legislation review processes of NCP as they affect statutory marketing arrangements for rural products. The impact of competitive neutrality and contracting on local government is the subject of chapter 8.

Chapter 9 addresses other reform initiatives raised by participants — these include legislation reviews governing shopping hours, reviews of the potentially anti-competitive practices of certain professions, and issues associated with the national access regime.

Finally, chapter 10 seeks to assess the net impact of NCP on country Australia and the nation as a whole. It draws on the Commission's economic modelling of the impact of NCP reforms and of some important long-term sources of change.

4 The National Competition Policy Agreements

National Competition Policy (NCP) is the outcome of agreements between the Commonwealth and all State and Territory governments. It was intended to advance, on a national basis, a range of competition reforms considered capable of delivering significant public benefits.

4.1 Introduction

Since the mid-1980s, all governments have concertedly pursued microeconomic reforms to improve the performance of their economies and the welfare of their citizens. Initially, major Commonwealth Government reforms centred on measures to make the economy more outward oriented — for example, floating the dollar, deregulating financial markets and reducing barriers to trade. More recently, governments at all levels have implemented a raft of microeconomic reforms aimed at improving the performance of government businesses, providing better welfare services and reducing rigidities in labour markets.

The need to improve the performance of government businesses enterprises (GBEs), in particular, became increasingly evident following reviews undertaken during the 1980s. These reviews showed that, in many instances, excessive capital investment and over-manning added considerably to costs and that the goods and services produced by these businesses frequently did not meet the standards sought by users. A recurring theme in many such reviews was that prices frequently did not reflect the cost of supply. Some examples of these problems include:

What might be termed the ‘Robin Hood’ principle would seem to be rampant within the public sector in New South Wales. This has led to a system of pricing which charges one group excessively in order to subsidise another group. (New South Wales Commission of Audit 1988, p. 38)

... the quality of service is a major concern for users, particularly in the small freight and general freight areas. (State Rail Authority of New South Wales, cited in IAC 1989, p. 17)

... we have been trying to operate a modern transport system with horse-and-buggy work practices. These work practices must be wiped out in the interest of the person who ultimately pays all our wages — the customer. (V/Line 1986, p. 3)

Excessive Ministerial intervention was also identified as a factor underlying poor performance.

In many instances, Ministerial direction or intervention has not only weakened management responsibility and accountability, but has directly impaired the [State Rail Authority's] ability to operate on a commercial and cost effective basis, with the result being poor financial and operational performance. (New South Wales Commission of Audit 1988, p. 32)

There have long been concerns that the exercise of monopoly power can have a regressive impact on the community. For example, Creedy and Dixon (1998) examined the relationship between the burden of monopoly and differences in income levels between Australian households. They found that:

The welfare loss associated with monopoly power is found to be higher for low-income households (such as households that depend on government pensions and benefits for their practical source of income) compared with high-income households. (Creedy and Dixon 1998, p. 1)

In response to ongoing evidence of inefficiencies in service delivery associated with GBEs, governments began to introduce reforms in many of these areas more than a decade ago.

Reform was seen by governments as important for a range of reasons including:

- to address the poor performance, which imposes a dead-weight 'tax' on users and the economy generally — GBEs are significant suppliers of inputs to the rest of the economy and there are often few (if any) other suppliers;
- to ensure that resources are directed to areas of greatest need — there is always an alternative use for scarce public funds (eg funding of rail authorities versus funding for hospitals and schools); and
- to promote better investment decisions — governments are increasingly concerned with achieving a satisfactory return on the substantial public funds invested in the assets of government businesses.

Initially, State and Territory governments embarked on their respective reform agendas separately. However, in 1992, in an attempt to address problems which can arise from a fragmented State-by-State approach to reform (such as the different gauges and standards in Australia's rail system), the Council of Australian Governments (CoAG) commissioned an independent committee of inquiry into a national competition policy (Hilmer 1993).

In response to the Hilmer Committee's report, the Commonwealth and all State and Territory governments agreed, in April 1995, on the need for a more coordinated and systematic approach to reform. NCP therefore represents the realisation of a

joint desire to deliver the benefits of competition through a national approach to competition policy reform.

Underlying NCP is the notion that *managed*, rather than untrammelled, competition can create incentives for improved economic performance. That is, the aim of NCP is not only to facilitate effective competition to promote economic efficiency, but also to accommodate situations where competition does not have that effect, or where it conflicts with social objectives. Accordingly, NCP includes provisions which endorse restrictions on competition where such arrangements can be shown to be in the ‘public interest’.

For many people, the pursuit of improved economic efficiency through effective competition is a rather abstract notion. It may not be immediately apparent why efficiency is important or how it relates to people’s lives. In answering such questions, it is useful to recall what the ‘architects’ of NCP, and the Commonwealth Government, had to say:

Over the last decade or so, there has been a growing recognition, not only in Australia but around the world, of the role that competition plays in meeting these challenges. Competition provides the spur for businesses to improve their performance, develop new products and respond to changing circumstances. Competition offers the promise of lower prices and improved choice for consumers and greater efficiency, higher economic growth and increased employment opportunities for the economy as a whole. (Hilmer 1993, p. 1)

In introducing legislation to implement NCP, the Commonwealth Government stated its view that:

Implementing this policy is the most important single development in micro-economic reform in recent years. Ultimately, the ability of the economy to grow, to provide jobs and an improved standard of living, depends upon how well the productive potential of the economy is employed and enhanced. ... The payoff ... for ordinary Australians is very real. It paves the way for cheaper prices, more growth and more jobs.

The new integrated and complete approach to national competition policy, which balances economic efficiency and broader elements of the public interest, will give Australia one of the most sophisticated competition policies in the world. ... The reward will be an economy that provides more opportunities to satisfy the aspirations of all Australians. (Commonwealth of Australia 1995, pp. 2434–9)

The National Competition Policy intergovernmental agreements

The NCP framework consists of three intergovernmental agreements. These are:

- The *Competition Principles Agreement* (CPA), which sets out principles for:
 - prices oversight of certain government businesses;

-
- putting government businesses on a ‘competitively neutral’ basis with private sector competitors;
 - reform of government monopolies;
 - reviews of legislation which restrict competition;
 - allowing businesses (third parties) to gain access to some ‘essential’ infrastructure facilities; and
 - application of the CPA to local governments.
- The *Conduct Code Agreement*, which establishes the basis for extending the competitive conduct rules of the *Trade Practices Act 1974* (TPA) to all businesses and professions in Australia.
 - The *Implementation Agreement*, which specifies a program of financial grants by the Commonwealth to State and Territory governments — so-called competition payments — contingent on implementation of the agreed reforms (including earlier CoAG reform commitments in gas, electricity, water and rail transport).

These agreements are discussed, in turn, below (refer sections 4.2–4.4).

In addition to the three intergovernmental agreements, the *Competition Policy Reform Act 1995* established two institutions — the Australian Competition and Consumer Commission (ACCC) and the National Competition Council (NCC). The ACCC is involved principally with enforcement of the TPA. The NCC has the key role of monitoring and advising the Commonwealth Government on the progress of NCP reforms.

4.2 Competition Principles Agreement

The CPA sets out agreed principles for a number of reforms. It also details ‘public interest’ matters to be taken into consideration when assessing the costs and benefits of particular courses of action.

Prices oversight of government business enterprises

Prices oversight of GBEs is the responsibility of the relevant Commonwealth, State or Territory jurisdiction. The CPA outlines principles for each jurisdiction to establish independent prices oversight bodies where they did not already exist. Alternatively, a State or Territory can seek to have its GBEs subject to prices surveillance by the ACCC under the *Prices Surveillance Act 1983*. A jurisdiction also may agree to its GBEs being subject to prices oversight by another jurisdiction.

If an enterprise is not subject to independent prices oversight and its pricing has a significant impact on trade or commerce, the Commonwealth Government can declare that business be subject to the Prices Surveillance Act.

Apart from Western Australia and the Northern Territory, all jurisdictions have established independent prices oversight bodies — the Commonwealth (ACCC), New South Wales (Independent Pricing and Regulatory Tribunal), Victoria (Office of the Regulator-General), Queensland (Queensland Competition Authority), South Australia (prices surveillance mechanism under the *Government Business Enterprises (Competition) Act 1996*), Tasmania (Government Prices Oversight Commission) and the ACT (Independent Pricing and Regulatory Commission).

Competitive neutrality

Competitive neutrality (CN) seeks to ensure that government businesses do not enjoy any net competitive advantage over private sector competitors simply by virtue of their public ownership. The CPA identifies measures with which government businesses are intended to comply under CN — such as corporatisation, allowance for relevant government taxes and charges, and exposure to those regulations applying to competing private sector businesses.

Each jurisdiction is free to determine its own agenda for the implementation of CN principles, and its application is required only to the extent that the benefits from implementation outweigh the costs. Importantly, the CPA is neutral with respect to the nature and form of ownership of government businesses.

All jurisdictions have published CN policy statements and established mechanisms to handle complaints relating to non-compliance with CN principles. The impact of CN principles on local governments is discussed in chapter 8.

Structural reform of public monopolies

The CPA outlines principles for the reform of public monopolies. Specifically, the jurisdictions agreed that, prior to introducing competition to a sector supplied by a public monopoly, responsibility for industry regulation would be removed from the monopolist to prevent it enjoying any regulatory advantage over its rivals, and reviews would be undertaken to ascertain, among other matters:

- the commercial objectives of the business;
- the merits of separating natural monopoly elements from competitive elements;
- how best to meet community service obligations; and

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- the financial relationships between the owner and the public monopoly.

Each government is free to determine its agenda for reform. The impact on country Australia of the structural reform of public monopolies is discussed in chapter 6.

Legislation review

Under the CPA, each party agreed to review and, where appropriate, reform by the year 2000, all legislation which restricts competition. The guiding principle is that legislation should not restrict competition unless it can be demonstrated that the:

- benefits of the restriction to the community as a whole outweigh the costs; and
- objectives of the legislation can only be achieved by restricting competition.

As both criteria must be satisfied, NCP places the onus on those seeking to retain legislative restrictions on competition to prove the wider community benefit.

Legislation reviews seek to: clarify the objectives of the legislation; identify the nature of the restriction on competition; analyse the likely effect of the restriction on competition and on the economy generally; assess and balance the costs and benefits of the restriction; and consider alternative means for achieving the objective (including non-legislative approaches).

The NCC, in its role of monitoring legislative reviews to ensure that they conform with agreed processes, seeks to be satisfied that review processes are transparent, review panels are independent and that recommendations are acted upon by the relevant government. It claims that it does not judge the outcomes of independent reviews, but that governments can fall foul of the process if they fail to provide a supporting 'public interest' case if they opt to retain restrictions on competition contrary to the recommendations of a review. For example, the NCC recommended that the New South Wales Government should have \$10 million deducted from its competition payments for failing to justify its initial decision not to implement some recommendations of its review of rice regulation. It has also recommended a suspension of 25 per cent of Queensland's 1999-2000 competition payments due to concerns about progress with water reform (discussed further in section 4.4).

All jurisdictions have published timetables for reviews of anti-competitive legislation. Some 1800 pieces of legislation across all jurisdictions are scheduled for review by the end of the year 2000. Of these, 1100 were scheduled for completion by the end of 1998 for inclusion in the second tranche assessment. Around half of the latter group have been completed and approximately 400 are still

under way. Governments have announced their responses in 370 cases (NCC 1999b, vol. 1). Progress, as at the end of March 1999, is shown in table 4.1

If a national review is considered appropriate by one or more parties, the jurisdiction proposing the review may request that it be conducted by the NCC. Included are reviews of legislation supporting agricultural cooperatives and statutory marketing authorities (refer chapter 7).

Table 4.1 Progress of legislative reviews by jurisdiction^a

	<i>Reviews scheduled</i>	<i>Reviews completed, reform implemented</i>	<i>Reviews completed, not yet implemented</i>	<i>Reviews underway</i>	<i>Reviews not yet commenced</i>
Commonwealth	67	27	13	17	10
New South Wales	143	44	16	65	18
Victoria	121	57	19	20	25
Queensland	68	26	5	24	13
Western Australia	164	43	49	47	25
South Australia	121	28	13	73	7
Tasmania	186	95	18	47	26
ACT	161	36	20	43	62
Northern Territory	85	17	9	55	4
All jurisdictions	1116	373	162	391	190

^a Progress of reviews scheduled up to the end of 1998, at 31 March 1999.

Source: NCC (1999b, vol. 1, p. 88).

Access to significant infrastructure facilities

Access to certain key infrastructure facilities is important for competition in related markets. For example, a new (or potential) electricity generator needs to be able to have access to the electricity grid (and thus its customers) if it is to compete with existing generators. In many cases, public utilities have operated as both monopoly infrastructure owners and service providers. For example, railway lines and rail freight services have typically been owned and operated by government businesses.

In some cases, structural separation of an infrastructure facility from a service may not be possible, or an integrated monopoly service provider may have little incentive to provide a competitor with access on reasonable terms. In such cases, regulated access to the facility may be appropriate.

Under the CPA, all governments agreed:

-
- that the Commonwealth Government would establish a national access regime for facilities of national significance – Part IIIA of the TPA establishes such a framework;
 - that the national regime not cover a service provided by an infrastructure facility already covered by an ‘effective’ State or Territory regime (unless difficulties arise from the facility being situated in more than one jurisdiction or from its influence outside the jurisdiction); and
 - on principles which State and Territory access regimes should incorporate to be deemed ‘effective’.

Access is relevant mainly to the energy, communications and transport industries. It may also arise in other sectors, such as irrigation infrastructure. Access issues raised by participants are canvassed in chapter 9.

Application of competition principles to local government

All jurisdictions agreed that the principles set out in the CPA should apply to local governments, even though local governments were not signatories to the agreement. The State and Territory Governments agreed that, in relation to implementing reforms for competitive neutrality, reform of public monopolies and legislation reviews, they would consult with local government and publish a statement specifying the application of the principles to local government activities and functions. All States and Territories with local governments have published these statements.

The impact of the competitive neutrality reforms on local governments is canvassed in chapter 8. That chapter also assesses competitive tendering and contracting issues — reforms which are not part of NCP, but are of particular concern to many local governments.

The ‘public interest’ test — clause 1(3) of the CPA

In many areas, NCP requires a critical re-examination of what may be established practice. The participating governments agreed that competition is not an end in itself and that it is not always sensible to promote competition. For instance, when introducing the *Competition Policy Reform Act 1995*, the Government stated:

... this Government is not interested in reform or competition for its own sake. The package recognises that economic efficiency is one element of a broader public policy context which also includes social considerations. Explicit recognition is given to those broader elements of the public interest ... (Commonwealth of Australia 1995)

The CPA endorses restrictions on competition if such arrangements can be shown to be in the ‘public interest’. The term ‘public interest’ is not mentioned in clause 1(3), but is used here to distinguish this test from the ‘public benefit’ test applied by the ACCC. Clause 1(3) adopts a broad approach to the ‘public interest’ by setting out factors to be taken into account in weighing the costs and benefits of various reforms. These require that assessments consider more than economic benefits and costs. For example, social, environmental, equity and regional factors can be taken into account.

The factors in clause 1(3) are:

- government legislation and policies relating to ecologically sustainable development;
- social welfare and equity considerations, including community service obligations;
- government legislation and policies relating to matters such as occupational health and safety, industrial relations and access and equity;
- economic and regional development, including employment and investment growth;
- the interests of consumers generally or of a class of consumers;
- the competitiveness of Australian businesses; and
- the efficient allocation of resources.

This list is not exhaustive and no explicit weighting is attached to these matters.

These listed matters are relevant when conducting legislation reviews, in assessing the merits of applying competitive neutrality to government businesses and when reforming public monopolies. In addition, apart from clause 1(3) of the CPA, there are several other ways in which governments can address the ‘public interest’ under NCP. These include:

- consideration by the NCC of applications for access to infrastructure services (see previous section on ‘Access to significant infrastructure facilities’);
- authorisation of anti-competitive conduct, which can be sought from the ACCC on the ground that there is a net public benefit (see the following section); and
- statutory exemptions for certain conduct, which can be provided under sections 51(2) and 51(3) of the TPA (described and discussed in chapter 7).

Issues associated with the *practical operation* of the ‘public interest’ provisions are discussed in chapter 11.

Review of the Competition Principles Agreement

The CPA, of 11 April 1995, includes two important review clauses. Clause 15 provides that once the CPA has operated for five years, the parties (that is, CoAG) will review its operation and terms. Clause 11 provides for the parties to review the need for, and the operation of, the NCC (which was established in November 1995) after it has been in existence for five years. These reviews will therefore commence sometime after early-April 2000.

4.3 Conduct Code Agreement

Under the Conduct Code Agreement, all governments agreed to extend the operation of the competitive conduct rules contained in Part IV of the TPA to *all* businesses. Part IV prohibits (persons from engaging in) a range of anti-competitive practices (table 4.2).

Table 4.2 Prohibited trade practices

<i>Part IV of the Trade Practices Act prohibits: Which means that under the Act:</i>	
Anti-competitive agreements, such as price fixing, market sharing and primary and secondary boycotts (ss 45–45D)	It is illegal for: <ul style="list-style-type: none">• producers to control prices and to divide a market so that they do not compete against each other (if it substantially lessens competition);• competitors to agree not to acquire (or supply) goods and services from (to) a particular person.
Misuse of market power (s. 46)	A firm with a substantial degree of market power cannot use that power to: <ul style="list-style-type: none">• eliminate or substantially damage a competitor;• prevent the entry of a person into any market; or• deter a person from engaging in competitive conduct in any market.
Exclusive dealing (s. 47)	It is illegal to supply goods or services under conditions where the purchaser: <ul style="list-style-type: none">• limits the acquisition of goods or services from a competitor of the supplier; and• will not resupply, or will resupply only to a limited extent, goods or services to a particular person or place.
Resale price maintenance (ss 48, 96–100)	It is illegal for a supplier, manufacturer or wholesaler to specify a minimum price below which goods and services may not be resold or advertised.
Mergers likely to lessen substantially competition in a substantial market (s. 50)	The merger of two firms is prohibited if it is likely to substantially lessen competition — this applies to mergers between competitors and between suppliers and customers.

Source: Derived from ACCC (1998).

Previously, constitutional limitations prevented the application of these provisions to unincorporated businesses (eg sole traders, partnerships and the professions). Moreover, in the past, many State and Territory government businesses had ‘Shield of the Crown’ immunity from the TPA. These Constitutional limitations have been overcome by each State and Territory government enacting legislation which relates to the conduct of persons as distinct from corporations (Steinwall, sub. 159, p. 2).

The extension of the competitive conduct rules to all businesses has implications for country Australia, particularly for agricultural activities. The ACCC (1998, p. 3) states that ‘If you are a rural producer or supplier, or a manufacturer or processor of primary products, then ... the Act applies to you’.

ACCC and ‘public benefit’ testing

While the TPA prohibits a range of anti-competitive conduct, the ACCC has the power to ‘authorise’ such conduct for limited periods where a net benefit to the public results. To determine whether anti-competitive conduct should be authorised, the ACCC applies a ‘public benefit’ test. There is no standard test — each case is assessed with regard to the particular facts of the case in question. The Australian Competition Tribunal has described a public benefit as:

... anything of value to the community generally, any contribution to the aims pursued by the society including as one of its principal elements ... the achievement of the economic goals of efficiency and progress ... (ACCC 1997b, p. 37)

Box 4.1 lists the factors which have been assessed as providing a public benefit — it represents a distillation of the factors underlying authorisation decisions by the ACCC (and the former Trade Practices Commission), the Australian Competition Tribunal (and the former Trade Practices Tribunal) and the courts. As with clause 1(3) of the CPA, the list is not exhaustive.

Examples of how the ACCC undertakes such assessments are provided in chapter 7, which examines the impact of NCP on statutory marketing arrangements.

Review of the Conduct Code Agreement

Section 10 of the Agreement provides that its operation and terms be reviewed once it has operated for five years.

Box 4.1 Factors taken into account as ‘public benefits’

Factors which have been assessed by the ACCC as providing ‘public benefits’ include:

- business efficiency, especially if it results in improved international competitiveness;
- industry rationalisation resulting in more efficient allocation of resources;
- expansion of employment in efficient industries or employment growth in regions;
- industry cost savings resulting in lower prices at all levels in the supply chain;
- promotion of competition in industry;
- promotion of equitable dealings in the market;
- growth in export markets and development of import replacement activities;
- steps to protect the environment;
- economic development, for example, development of natural resources through encouraging exploration, research and capital investment;
- assistance to small business, for example, guidance on costing or pricing or marketing initiatives which promote competitiveness;
- improvement in the quality and safety of goods and services; and
- supply of better information to consumers and business.

Source: ACCC (1995, p. 20).

4.4 Agreement to Implement the National Competition Policy and Related Reforms

The ‘Implementation Agreement’ specifies a program of financial grants from the Commonwealth to State and Territory governments contingent on implementation of the agreed reforms, including reform commitments in gas, electricity, water and road transport. The reform programs for these industries were agreed to at earlier meetings of the CoAG and brought within the NCP framework in 1995 (see below).

Competition payments

In recognition of the benefits to flow from the reforms, and that the Commonwealth stands to gain increased tax revenue, NCP provides for the disbursement of around \$16 billion in incentive payments to the States and Territories. This *estimated* figure is shown in table 4.3 which has been drawn from the ‘Implementation Agreement’.

Table 4.3 Estimated National Competition Policy payments

Millions of dollars

<i>Year</i>	<i>Per capita State govt^a</i>	<i>Per capita local govt^{a,b}</i>	<i>Per capita total^a</i>	<i>Competition payments</i>	<i>State and local govt: total payments</i>
1997-98	194	14	209	219	428
1998-99	392	29	420	226	646
1999-00	604	44	647	465	1 113
2000-01	829	60	890	479	1 369
2001-02	1 070	78	1 148	739	1 888
2002-03	1 327	97	1 423	761	2 184
2003-04	1 600	117	1 716	783	2 499
2004-05	1 890	138	2 028	806	2 833
2005-06	2 198	160	2 359	829	3 188
Total	10 104	736	10 840	5 307	16 147

^a Estimated annual cost of maintaining the real per capita guarantee of the Financial Assistance Grants (FAG) pool. It assumes population growth of 1.1 per cent from 1997-98 onwards. ^b Reflects existing links between pools (local government benefits from the link between the State and local government FAG pools).

Source: NCC (1998b).

Initially it was agreed that competition grants would be split into two components:

- maintenance of the real value of Financial Assistance Grants (FAG) — the Commonwealth Government agreed to maintain a real per capita guarantee for the FAG pool on a rolling three year basis (at a cost of around \$2.4 billion by 2005-06); and
- ‘competition payments’ — which form a separate pool and are distributed to the States and Territory governments on a per capita basis.

The data presented in table 4.3 are estimates (incorporating expected population growth and price movements) made at the time the agreement was signed. For example, it is based on the indexed value of annual competition payments in *1994-95 prices* of \$200 million from 1997-98, \$400 million from 1999-2000 and \$600 million from 2001-02.

The good and services tax and Commonwealth-State financial relations

The introduction of a goods and services tax (GST) from 1 July 2000 has implications for Commonwealth–State financial arrangements. The Commonwealth and the States and Territories have signed an ‘Intergovernmental Agreement on the Reform of Commonwealth–State Financial Relations’ (June 1999). It provides that FAGs will cease on 1 July 2000. Instead, the Commonwealth will provide all of the revenue from the GST to the States and Territories for their use for any purpose —

these GST revenue grants will be distributed in accordance with horizontal fiscal equalisation (see chapter 12).

In terms of NCP, the new arrangements mean that the provision for guaranteed per capita increases in the FAG pool will no longer operate. However, the agreement guarantees that the budgetary position of each State and Territory will be no worse off during a transitional period to 2003. The NCP competition payments will remain as described above.

Implementation and payments — the three tranches

Implementation of the NCP program is split into three tranches. At the end of each tranche — in July of 1997, 1999 and 2001 — the Commonwealth makes the competition grants available to the States and Territories if they are viewed as having made satisfactory progress with the reforms. Assessments are undertaken by the NCC, which monitors each jurisdiction's progress and makes recommendations to the Commonwealth Treasurer. The Commonwealth Government, not the NCC, decides the amounts of competition grants actually paid.

For the first tranche, each jurisdiction agreed to give effect to the intergovernmental agreements and to meet deadlines set down for legislation review and competitive neutrality. Each jurisdiction also agreed to implement relevant CoAG agreements on electricity arrangements, a framework for free and fair trade in gas, and to observe road transport reforms. Conditions for payments of the second tranche include the first tranche requirements, plus the agreed implementation of CoAG agreements on the framework for the efficient and sustainable reform of the Australian water industry. Third tranche payments are based upon the continued observance of the conditions for the first two tranches.

The first tranche

Following the 1997 assessment, the NCC recommended that a supplementary assessment against first tranche commitments be undertaken in 1998 as an alternative to its recommending financial deductions for unsatisfactory performance. The Treasurer accepted this and partial payments were made for 1997-98. In the 1998 supplementary assessment, the NCC recommended that all States and Territories, other than New South Wales, receive all outstanding first tranche payments.

The NCC recommended that \$10 million be deducted from New South Wales' payment unless domestic rice marketing arrangements were reformed by the end of January 1999 (as recommended by an independent review group). Subsequently, the

Commonwealth Treasurer established a working group to examine options for ensuring a single desk for rice export, while allowing for domestic market deregulation. In April 1999, the Treasurer sought agreement from the New South Wales Premier to deregulate domestic rice marketing in line with the working group's preferred model. The Premier gave in-principle agreement, thereby ensuring receipt of all of New South Wales' first tranche competition payments. The NCC will monitor progress and consider the outcome in its third tranche assessment of progress (NCC 1999b).

The second tranche

The NCC has recommended that all States and Territories, with the exception of Queensland, receive full payment of the first part of the second tranche payments due in 1999-2000. Second tranche NCP payments due in 2000-2001 are subject to a supplementary assessment of identified outstanding second tranche issues.

The NCC recommended that 25 per cent of Queensland's second tranche 1999-2000 competition payments be suspended until 31 December 1999, at which time it will make a final recommendation.¹ The NCC had concerns with Queensland's approach to water reform — in particular a decision to proceed with the St George Off Stream Storage facility which the NCC considered was, on the available independent analysis, neither economically viable nor ecologically sustainable (see chapter 5).

National Competition Policy-related infrastructure reforms

The NCP reform package incorporates earlier commitments agreed to by the CoAG for specific reforms affecting electricity, gas, water and road transport infrastructure. These are outlined briefly below and described in detail in the following chapter.

Electricity

In 1993, the Commonwealth, New South Wales, Victoria, Queensland, South Australia and the ACT agreed to form a competitive interstate electricity market. The principles underlying the reforms are that:

- generators should compete for the right to supply;

¹ The maximum payment available to Queensland for 1999-2000 is \$119 million (comprising a competition payment of \$81.4 million and a per capita growth in the FAG pool of \$37.6 million). The amount of the suspension is based on 25 per cent of six months worth of the \$119 million — around \$15 million.

-
- there should be open access to the grid; and
 - customers should be free to choose who supplies their electricity.

Gas

In February 1994, CoAG sought to develop a nationally integrated and competitive gas industry. The reforms involve:

- removing barriers to free trade;
- establishing a framework for access to gas transmission pipelines;
- reforming gas franchise arrangements;
- corporatising government-owned utilities; and
- separating transmission from distribution activities.

Water

In 1994, CoAG agreed to a framework for the efficient and sustainable reform of the water industry. It includes:

- water prices based on the quantity of water used, the full cost of providing that water and the removal of cross-subsidies;
- water ‘entitlements’, including reservation of water for the environment and separation of water rights from land titles;
- the ability to buy and sell water entitlements; and
- investment decisions linked to economic viability and ecological sustainability.

Road

In October 1992, Australian Transport Ministers agreed to a national approach for road transport to improve efficiency and safety, and reduce the costs of regulation. The Ministers agreed to reforms including uniform heavy vehicle charges, vehicle operation reforms (eg roadworthiness, mass and loading) and a national heavy vehicle registration scheme and driver licensing scheme.

In the following chapters, details of the NCP reforms are presented together with an assessment of their economic and social effects on country Australia and the community as a whole.

5 National Competition Policy-related infrastructure reforms

Infrastructure services are important inputs to Australian industries, including those in country Australia. This underlines the need for the efficient provision of electricity, gas, water and road transport services, especially for producers exposed to international competition. Intergovernmental reforms to improve the provision of these services began more than a decade ago, and were incorporated in the National Competition Policy (NCP) in 1995. These reforms have already provided significant benefits for Australia as a whole, but outcomes vary considerably across sectors and regions.

5.1 Introduction

The potential gains from reforms in the electricity, gas, water and road transport sectors are substantial. As these services are important inputs to most industries, their more efficient provision has a significant role to play in improving industry competitiveness. Moreover, access to infrastructure services is essential to a basic quality of life. All Australians, whether in urban or country areas, have an interest in ensuring that such services are accessible, affordable and efficiently provided.

Spurred by evidence of inefficiencies and inequities in service delivery, governments began to introduce reforms in most of these areas more than a decade ago. The NCP reform package builds on these initiatives. In addition to the three intergovernmental agreements, it incorporates earlier infrastructure commitments made by Australian governments in the early 1990s. These include:

- the 1992 agreement by Australian Transport Ministers on a national approach for road transport reform to improve efficiency and safety, and reduce the costs of regulation;
- the 1993 agreement between the Commonwealth, New South Wales, Victoria, Queensland, South Australia and the ACT to form a competitive interstate electricity market;

-
- the 1994 Council of Australian Governments (CoAG) initiative to provide for free and fair trade in gas between and within the States and Territories; and
 - the 1994 CoAG initiative to implement a framework for the efficient and sustainable reform of the Australian water industry, including pricing, investment, allocation and institutional reforms.

In essence, NCP requires infrastructure providers to address structural, access and competitive neutrality issues. Its focus is on removing legislative barriers to entry and other impediments to effective competition. Amongst other things, the reforms have involved the separation of regulatory and commercial functions, and of the natural monopoly and potentially competitive components of service provision. Most government infrastructure providers have also been commercialised or corporatised so that, where feasible, they can compete on an equal footing with each other and any private sector counterparts.

Progress in implementing the reforms varies across the four sectors. Reform is most advanced in the electricity sector and there has also been substantial progress in the gas sector. In contrast, in the water and road transport sectors, the bulk of the reform task lies ahead for most jurisdictions. A supplement to the draft report provided details of agreed reforms and chronologies of the changes made by each jurisdiction in the four sectors (PC 1999a). The supplement is available from the Commission on request. Updated information is contained in the various volumes of the National Competition Council's (NCC) *Second Tranche Assessment of Governments' Progress with Implementing National Competition Policy and Related Reforms* (NCC 1999b).

This chapter looks at the impacts of reforms to date in the four sectors. The focus is on impacts on rural and regional Australia. However, in keeping with the terms of reference, each section also provides a brief synthesis of the Australia-wide effects of the reforms. The latter material draws heavily on: Commission research (particularly PC 1998e) and on work it has undertaken for the Steering Committee on National Performance Monitoring of Government Trading Enterprises (SCNPMGTE 1998); and, on recent work undertaken in Victoria by the Office of the Regulator-General (ORGV 1998, 1999a).

To help assess the impacts of the reforms, the Commission has used a number of broad indicators, including price, productivity, costs, service quality, employment levels and environmental outcomes. However, it is important to recognise that these broad indicators can have several dimensions. For example, in looking at prices, movements in aggregate price levels, price impacts on individual groups of users, and the alignment between prices and costs of supply are all relevant. Further, in assessing outcomes against these indicators, it is often difficult to separate the

impact of the NCP from other economic and social influences (eg technological change). Caution is therefore required in assessing whether, say, all employment, price and service quality changes in the infrastructure sectors are due to competition policy.

It is also important to bear in mind that any changes in community service obligations (CSOs) funded by governments may have a significant impact on some users — particularly those in country Australia where there is greater dependence on CSOs.

As discussed in chapter 4, NCP is neutral as regards the existence and level of support provided through CSOs. Rather, it promotes the explicit identification and costing of each CSO. In practice, however, there are likely to be links between CSO payments and the NCP reforms. For example, making infrastructure subsidies transparent and explicit may render them more vulnerable to reduction or removal as part of budgetary processes. Any decisions made by governments to change existing CSOs are discretionary choices — such changes are not mandated by NCP. It is unclear what effect improvements in the efficiency of service provision could have on the cost of meeting CSOs.

Finally, the Commission notes that the information available on the distribution of the benefits and costs of NCP-related infrastructure reforms between country and urban areas is far from comprehensive.

5.2 Electricity

Electricity supply businesses have assets of more than \$60 billion and, in 1996-97, combined sales of more than \$12.5 billion (ESAA 1999c, p. 1).

Electricity accounts for around 18 per cent of Australia's final energy consumption and some 66 per cent of the commercial and 42 per cent of the residential segments of the energy market (AGA 1998b, p. 31).

The manufacturing sector is the largest user of electricity. Within the sector, electricity is a particularly important input for non-ferrous metal manufacture — primarily alumina and aluminium — and pulp and paper production (around 8 and 7 per cent of the value of intermediate inputs, respectively). Both of these industries are located mainly in regional areas.

Until the late 1980s, electricity supply in Australia was characterised by publicly-owned, vertically-integrated monopoly suppliers which operated in separate, extensively regulated, State markets. This industry structure gave rise to significant

over-manning and over-investment, particularly in the generation segment, and inflated electricity costs and prices. Also, electricity tariffs bore little resemblance to the cost of supplying different classes of users.

The electricity reforms

In July 1991, CoAG agreed to reforms intended to improve competitiveness in the electricity industry. The key reforms involved industry restructuring — in particular, the separation of generation, transmission and distribution — and the formation of a national electricity market in southern and eastern States. In April 1995, these reforms were reaffirmed and extended under the NCP.

Progress in implementing the reforms

Since the 1991 CoAG agreement, there has been unprecedented change in the structure of the major electricity utilities. Key elements of these changes include:

- *New South Wales* — the creation of three competing generation entities, an independent transmission business and the consolidation of 25 distributors into six new distribution utilities.
- *Victoria* — the separation (and subsequent sale) of all major power stations, all five distribution businesses and the transmission utility.
- *Queensland* — the splitting of the major generator into three independent government businesses, the formation of a separate corporation to operate the State's transmission infrastructure, the retention of the seven distribution corporations and the creation of three new retail businesses. However, the Government subsequently amalgamated the six regional distribution corporations into a single corporation.
- *South Australia* — the creation of separate entities responsible for generation and transmission and distribution functions. The Government is now in the process of selling its generation and retail and distribution assets.
- *Western Australia* — the separation of electricity supply from gas supply and its establishment as a corporatised business, together with the sale of one of the State's power stations.
- *Tasmania* — the separation of the State's vertically-integrated electricity supplier into three entities responsible for generation and system control, transmission and retail/distribution.

-
- *Australian Capital Territory* — the ‘ring fencing’ of the Territory’s electricity distribution and retail activities within the government-owned water and electricity corporation.

In December 1998, the Northern Territory Government announced a range of reforms to improve the efficiency of its integrated Power and Water Authority. It intends progressively to open generation and retailing of electricity to competition. In March 1999, generation, transmission and distribution, and retailing were established as separate ‘product lines’ (Northern Territory Treasury 1999).

In addition to these changes in the structure of the traditional supply utilities, there have been some new entrants, mainly in the retail sector (eg there are now more than 20 retailers selling electricity in New South Wales).

An important element of the structural changes has been the corporatisation or commercialisation of all government electricity utilities. This has sharpened the commercial disciplines on managers, as well as placing public utilities on a competitively neutral footing with their private sector counterparts.

Greater commercial disciplines on electricity utilities, in turn, have precipitated pricing reforms to bring electricity charges more into line with underlying costs. In particular, electricity providers have sought to recover a higher proportion of system costs from residential consumers, leading to significant savings for business users (see below). However, to ensure that the pace of such price restructuring is manageable, all jurisdictions have established arrangements to oversight the charges levied by electricity utilities.

After a number of delays, the National Electricity Market (NEM) became fully operational in December 1998. The NEM has introduced competition into the generation and retail sectors — it permits eligible users to negotiate directly with suppliers of their choice. Specifically, the NEM provides for:

- a common wholesale market serving interconnected jurisdictions;
- a single controller despatching generators in the interconnected jurisdictions;
- customer entitlements to purchase electricity either from the spot market or under contract with a supplier of their choice; and
- a market settlement function handling spot and forward trading in the market, and the contractual requirements of wholesale customers and generators.

The NEM currently encompasses some 60 entities in New South Wales, Victoria, South Australia and the ACT. Queensland and Tasmania are expected to participate when the necessary grid connections are completed. All participating jurisdictions

are providing for the staged introduction of the contestable market, in which all users will eventually be able to benefit from having the ability to choose their supplier and negotiate price. At present, the contestable market (in participating jurisdictions) is available to all customers whose usage levels are greater than 160MWh.

As well as improving operating efficiency, the various competitive forces now at work in the electricity sector should lead to improved investment outcomes. For example, because spare capacity can now be shared across all jurisdictions participating in the NEM, the overall need for reserve generation capacity will be reduced. Competition should also address past problems of ‘gold-plating’ and excessive investment in coal-fired base load generating capacity.

Overall, the NCC assessed that the reform program was now well established in most jurisdictions. At the same time, it noted that jurisdictions were at various stages of reform and that considerable work remained to be done to see the full benefit of the reforms flow through to users (NCC 1999b, vol. 1, pp. 182-3).

A snapshot of jurisdictional progress in implementing the key elements of the electricity reforms is provided in table 5.1.

Table 5.1 Status of jurisdictions’ progress in implementing the electricity reforms, as at 30 June 1999

<i>Reform</i>	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>WA</i>	<i>SA</i>	<i>Tas</i>	<i>ACT</i>	<i>NT</i>
Structural separation	✓	✓	✓	✗	□	□	□	□
NEM – introduction of NEC and NEL	✓	✓	□	na	✓	□ in-prin com	✓	na
Third party access	✓	✓	□	□	✓	□ enacted	✓	□
Independent pricing and access regulatory bodies	✓	✓	✓	✗	□	✓	✓	✗
Retail competition	□ >160MWh	□ >160MWh	□	✗	□ >160MWh	✗	□ >160MWh	✗

Note: The summary in the table is only a broad indication of progress. It does not purport to provide a complete picture of the details of reform implementation contained in the NCC’s second tranche assessment.

✓ – implemented □ – implementing ✗ – little or no progress na – not applicable.

NEM – National Electricity Market; **NEC** – National Electricity Code; **NEL** – National Electricity Law; **in-prin com** – in-principle commitment; **w/sale mkt** – wholesale market; **MWh** megawatthour.

Sources: Commission evaluation based on information contained in NCC (1999b) and submissions.

Participants' views on the reform process

Many participants acknowledged the improvements in efficiency and the resulting cost savings from the reform process, particularly for larger business users. For example, the Tumut Shire Council (sub. 43, p. 2) said that power costs for some large industries in the town had fallen, leading to '... improved viability for those industries and some job gains'. Some also pointed to improvements in service quality, although opinion in this area was more divided (see below).

Such benefits notwithstanding, an important theme in submissions and discussions was the need for continuing support in country areas to offset the higher costs of electricity supply. Put simply, there was a view that, in some regions, the provision of current services and/or investments to upgrade facilities would not be viable under purely commercial pricing regimes. In this regard, Great Southern Energy commented:

... we believe that the current level of cross subsidies to our 50 000 isolated or rural customers is \$22 million annually. Clearly when all customers are contestable and network pricing is fully user pays or price locational this level of cross subsidy may not be sustainable. It is highly likely that Governments will need to fund this gap as a Community Service Obligation. (sub. 67, p. 4)

Another major concern raised in many submissions was the loss of direct employment opportunities in country areas as electricity services are restructured and rationalised. Participants provided a variety of information on the extent of these job losses (see below). Some identified the cumulative effect of employment losses as a threat to the continuing viability of some smaller towns. Others documented the wider social consequences. For example, the LaTrobe Shire Council reported that:

Many of those who lost full time jobs have remained in the area ... In some cases those who have remained are hoping for better times, but many have been unable to sell their houses to finance a new life elsewhere. Of particular concern is the large pool of highly skilled but narrowly experienced workers in their 40s and 50s who now find themselves with few prospects. (sub. 75, p. 5)

Not all participants presented a gloomy picture on the employment front. Apart from the stimulus provided by lower electricity charges for some business users in regional areas, participants said that rationalisation of maintenance depots was creating new employment opportunities in some larger country centres, partially offsetting losses in smaller towns.

Other reform issues raised by participants included concerns about:

- increases in connection charges subsuming any gains from lower usage tariffs;

-
- current network pricing regimes not recognising the proximity of users to generators in some parts of Australia, leading to inappropriate investment decisions and impeding regional development;
 - the absence of arrangements which permit small users to aggregate their requirements to achieve the size needed to be eligible to negotiate in the contestable market segment of the NEM;
 - intrusive regulatory frameworks eating into the efficiency gains from the reforms and introducing instability and inconsistencies between jurisdictions;
 - implementation of the reforms being too rapid in some regional areas; and
 - possible elimination of single phase electricity in some rural areas as a result of regulatory dictate.

Impacts of the reforms

At the State and national levels, the electricity reforms have already delivered significant benefits. Cost efficiencies have paved the way for significant reductions in usage charges to many users. Service quality outcomes have been more mixed. The employment effects have also varied but, across the sector as a whole, there have been substantial employment reductions, related in part to the need to reduce over-manning.

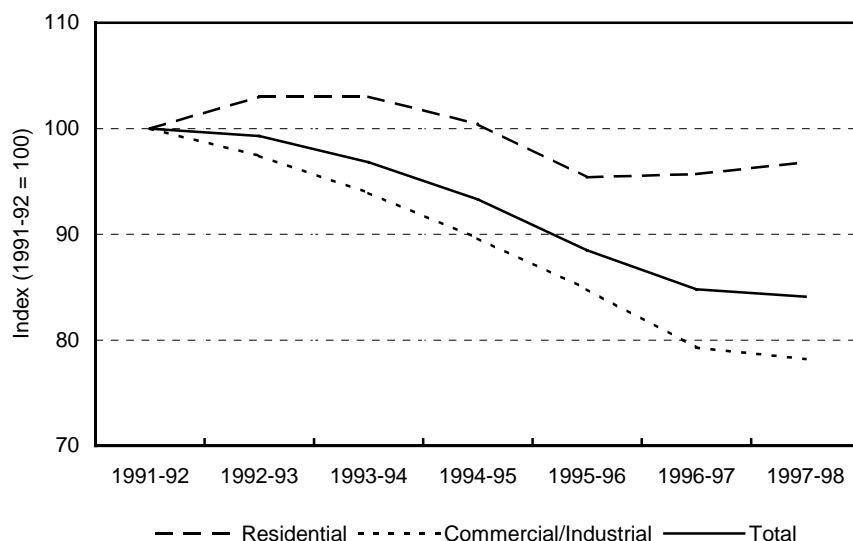
Prices

There is a range of evidence pointing to significant falls in usage charges in most jurisdictions since the commencement of the electricity reforms. While not all of the reductions are attributable to the reforms, the structural changes which have occurred undoubtedly explain much of the reductions.

The most comprehensive up-to-date information on prices is compiled by the Electricity Supply Association of Australia (ESAA). This shows that, between 1991-92 and 1997-98, real average prices for all Australian users fell by 16 per cent (see figure 5.1).

- Commercial industrial users received the largest reductions — about 22 per cent — compared with around 3 per cent for residential users.
- The size of the reductions varied markedly between jurisdictions, with the largest declines in average prices being in New South Wales and Western Australia (25 and 18 per cent, respectively) and the smallest reductions in Tasmania and Queensland (2–3 per cent).

Figure 5.1 Real price index for residential and commercial/industrial electricity users, Australia, 1991-92 to 1997-98



Sources: ESAA (1999a) and unpublished data for 1997-98.

Declining operating costs in public utilities — which collectively service around 75 per cent of electricity customers — underlie most of these price reductions (PC 1998g). The NCP requirement for independent price regulation has helped to ensure that cost reductions have been passed on to users. Price regulation has also facilitated a realignment of prices across user groups, leading to larger price falls for commercial users in most jurisdictions.

The advent of the NEM has intensified price competition, with progressively more business users able to choose their electricity supplier. Two studies (Deloitte Touche Tohmatsu 1998 and ACM 1998) found that electricity bills for New South Wales and Victorian businesses which have been able to select their own supplier under the NEM have fallen by 25–30 per cent on average, and by up to 60 per cent in some cases.

Similarly, a recent ESAA (1999b) survey of contestable customers in the mining, manufacturing, retailing, health, education and government sectors in the New South Wales, Victorian and Queensland markets found that:

... average price reductions received by respondents this time was 25.1 per cent — against 26.8 per cent in the first survey — [which] suggests that the retail price of electricity may be bottoming out. Nonetheless, some respondents received price reductions of an astonishing 80 per cent.

... Interestingly, the new (lower consumption) contestable customers — businesses consuming 160MWh to 750MWh a year — report price cuts similar to those gained by

larger firms. This suggests that electricity retailers have been passing on the full benefit of lower wholesale electricity prices to small(er) and big customers. Queensland customers report rates of price reductions similar to those being received in New South Wales and Victoria despite much higher pool prices in the northern market region. (ESAA 1999b, p. 30)

The Queensland Government (sub. D302, p. 12) indicated that contestable customers in the State had so far achieved total savings estimated at \$90 million per year. In New South Wales, the Government estimated that since May 1995, electricity customers have received savings of around \$930 million in real terms on their power bills (NCC 1999b, vol. 3, NSW, p. 57).

Recently, there has been renewed speculation about whether low wholesale ('spot') market prices observed during 1998 are sustainable. A survey by NUS International (AFR 1999) of prices charged for high voltage users in New South Wales and Victoria in the 12 months to April 1999, which showed significant increases in prices, lends some support to this. Nonetheless, the 1999 survey also showed that average Australian high voltage charges are the third lowest of the 17 countries surveyed.

Service quality

Service quality has become an increasingly important source of competitive advantage for electricity suppliers, particularly with the advent of the 'contestable customer'. According to the PC (1998e, p. 66), most distributors have implemented programs to improve customer service.

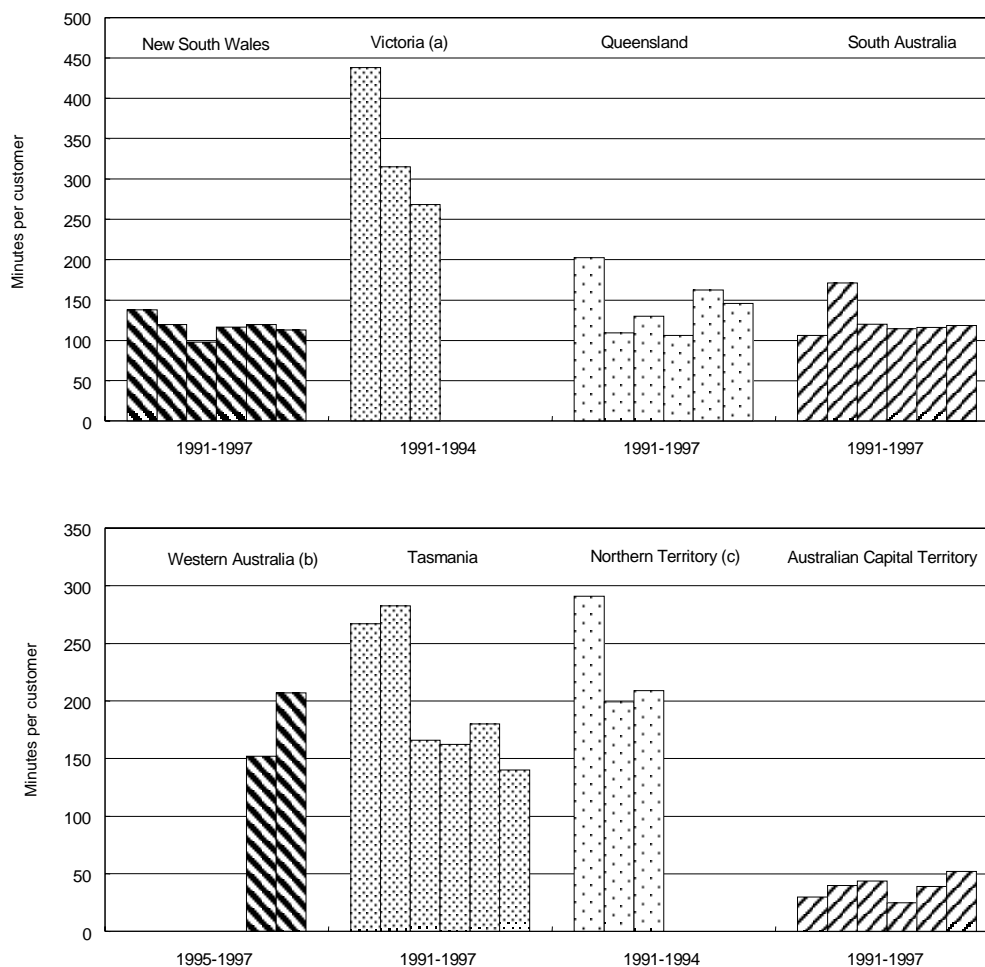
For most customers, reliability of supply is the key measure of service quality. Two measures of reliability which are commonly used in the industry are the 'average loss of supply per customer' and the 'average outage duration'. The former measures the total time (on average) that a customer is without power over a year, while the latter measures the average duration of power loss for each interruption.

As figures 5.2 and 5.3 indicate, these data fluctuate from year to year, which is not surprising given that most outages are caused by storms, fires and industrial disputation. Although the data suggest some differences between jurisdictions, it is difficult to discern any overall trend in these indicators.

A more recent study by the Victorian Regulator General reported some improvement in service levels. For example, it stated that reliability of supply:

... is substantially better than under the SEC [State Electricity Commission] prior to 1995, and has generally improved over the period 1995 to 1998. (ORGV 1999b)

Figure 5.2 Loss of supply per customer, 1991-92 to 1996-97



Note: Loss of supply factor equals total number of customer minutes interrupted divided by the average number of customers.

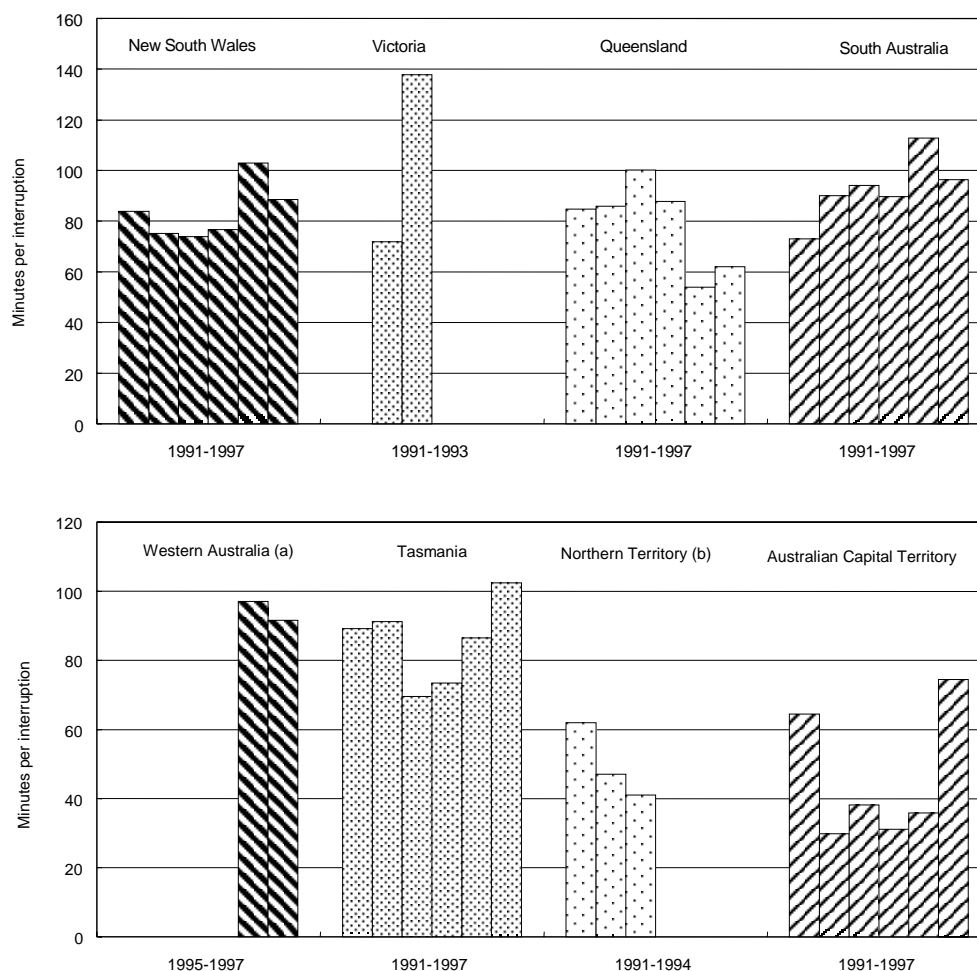
a Data were not provided for Victoria for 1994-95. Victorian generators and distributors were not monitored after 1994-95. **b** Data were not provided for Western Australia for the years before 1995-96. **c** Data were not provided for the Northern Territory for the years after 1992-93.

Source: PC (1998e).

Shareholder outcomes

According to the PC (1998e), in most jurisdictions, there was a substantial increase in the profitability of electricity government trading enterprises (GTEs) over the period 1991-92 to 1996-97. Improved profitability has led to increased payments to owner governments.

Figure 5.3 Average outage duration by jurisdiction, 1991-92 to 1996-97



Note: Average outage duration equals total number of customer minutes interrupted divided by total number of customer interruptions.

a Data were not provided for Victoria for 1994-95. Victorian generators and distributors were not monitored after 1994-95. **b** Data were not provided for Western Australia for the years before 1995-96. **c** Data were not provided for the Northern Territory for the years after 1992-93.

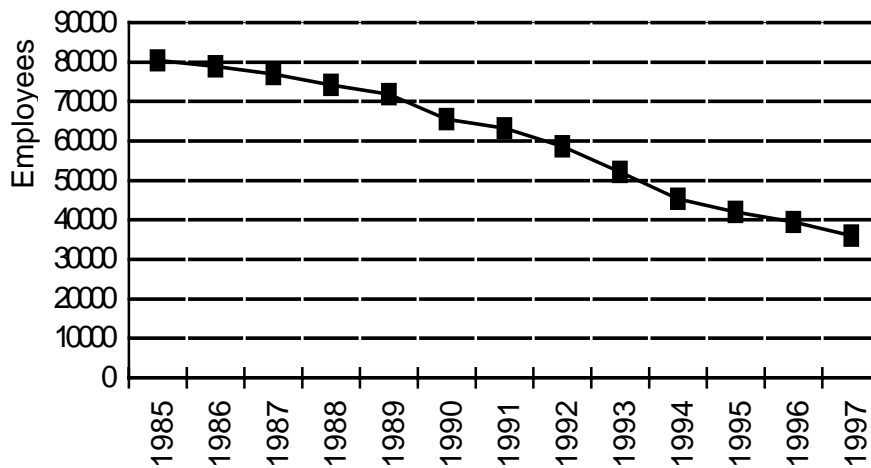
Source: PC (1998e).

Employment outcomes

To improve efficiency, State governments have sought to address overstaffing in their electricity utilities. This saw total employment in the electricity supply industry decline from slightly more than 80 000 in 1985 to around 37 000 in 1997.

As shown in figure 5.4, much of this decline occurred prior to implementation of the NCP in 1995. However, reductions in employment have continued since then, with increased competition providing incentives for the outsourcing of non-core activities, the centralisation of services and the implementation of new technologies.

Figure 5.4 **Employment in the electricity supply industry, 1985 to 1997**
(number of employees)



Source: Information supplied to the PC by the ESAA.

This decline in electricity employment has occurred against a backdrop of increasing electricity consumption. As a result, labour productivity in the industry has improved substantially.

The environment

Many electricity GTEs have increased their environment-related expenditure in the last few years. A substantial amount of this investment has been directed to renewable energy sources. Between 1991-92 and 1996-97, carbon dioxide emission levels (as a proportion of electricity generated) declined or remained stable in all jurisdictions where GTE data were collected (PC 1998e, p.79).

Regional impacts of the reforms

While the electricity reforms appear to have delivered benefits to Australia as a whole, in rural and regional Australia the outcomes to date have been more mixed. For example, while many users in country Australia (eg large businesses) have benefited from large price reductions, smaller users in some areas have experienced price increases. Similarly, while rationalisation of maintenance depots has resulted in a net fall in employment, some regional centres have gained extra jobs, sometimes at the expense of jobs in adjacent small towns.

Price outcomes

Participants provided a range of information on the price impacts of electricity reform in country areas. Some, particularly larger users, said that usage charges had fallen sharply. For example:

- Shoalhaven Council and the Dairy Farmers Co-operative at Nowra reported savings of more than 30 per cent.
- Fletcher International, located at Dubbo, said that its power bill had fallen by 50 per cent, providing an annual saving to the company of some \$800 000.
- The Town Advancement Group said that town electricity costs in West Wyalong had fallen by 30 per cent.
- Hastings Council told the Commission that it had negotiated a 25 per cent reduction in charges, providing a \$10 saving for each ratepayer.
- Australian Inland Energy said that mining companies operating in the Broken Hill area will benefit from reductions in charges of around 24 per cent.
- The Grampians Region Water Authority reported that electricity costs had fallen by 25 to 30 per cent at its 'contestable' sites.
- Ballarat Hospital reported a 20 per cent reduction in its power bill.

In contrast, some participants reported increases in usage charges. For instance, the Cooma Shire Council told the Commission that tariffs in the Cooma region had increased by around 5 per cent. However, in response, the distribution utility, Great Southern Energy, stated:

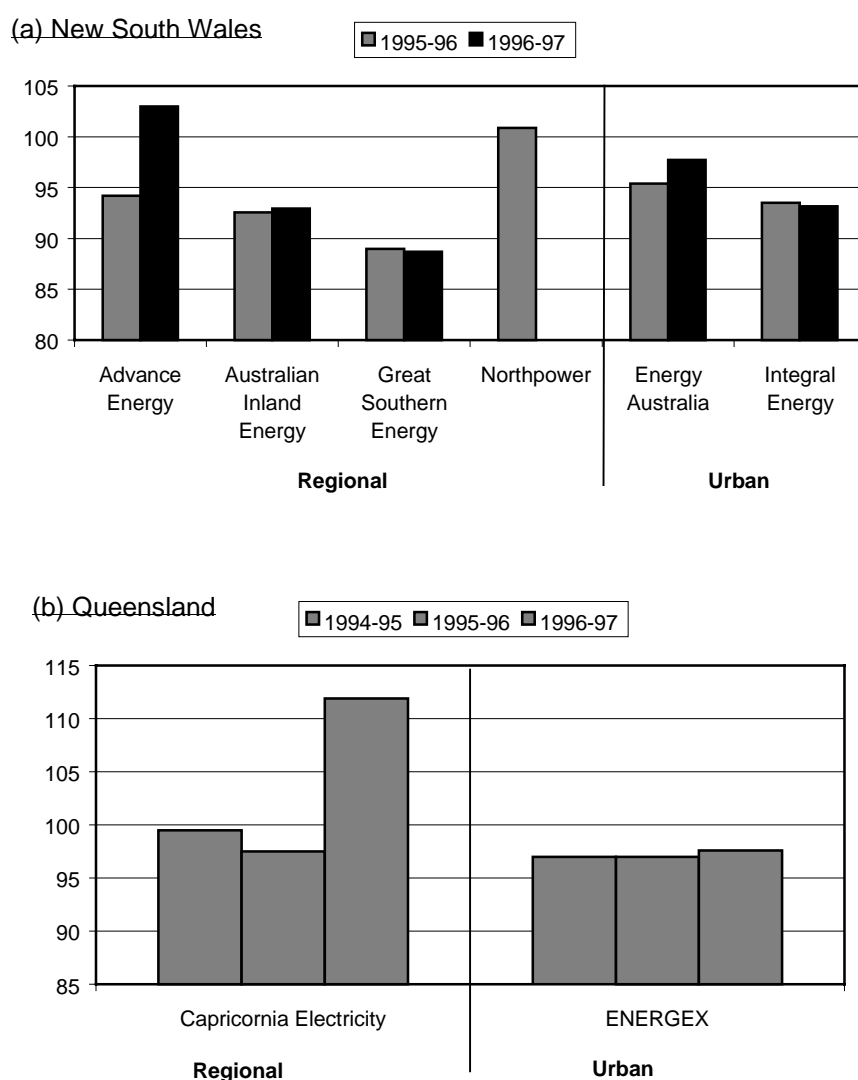
This statement may refer to the increase on obsolete tariffs ... the majority of customers in the Cooma region have received substantial decreases in electricity charges. (sub. D293, p. 3)

A number of participants said that savings in usage charges had been offset to a greater or lesser extent by higher connection charges. The Tumut Shire Council commented:

Lower power charges has led to a policy of full cost recovery on asset works for new connections, sometimes making those connections totally uneconomic. An example in Tumut was a new industry in a new subdivision which was fully provided with power being levied \$30 000 for some upgrading in the power supply. This type of upfront cost is prohibitive to many start-up industries and is a significant inhibition to economic development. (sub. 43, p. 3)

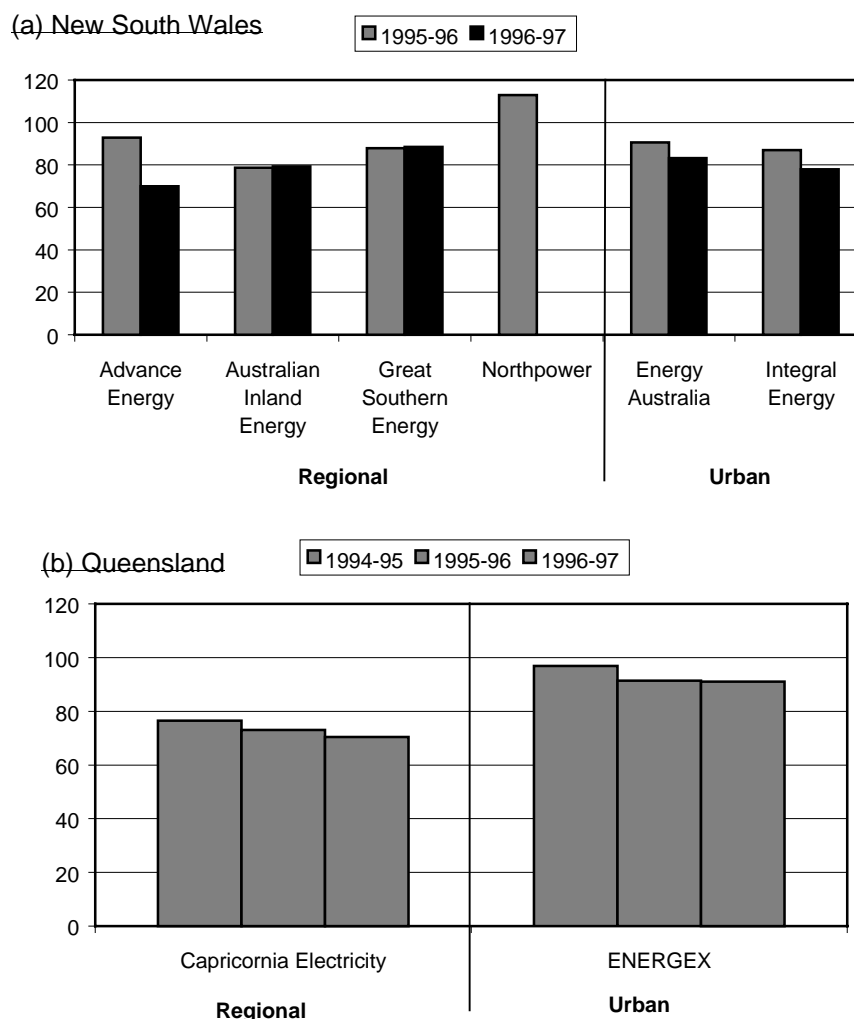
The SCNPMGTE has collected information on changes in usage charges for both residential and business consumers for a number of urban and regional electricity suppliers in New South Wales and Queensland (see figures 5.5 and 5.6). However, the information is limited in terms of both the suppliers covered and the period covered. In these circumstances, it is difficult to draw any firm conclusions.

Figure 5.5 Average price (residential) of selected electricity suppliers in New South Wales (1995-96 and 1996-97) and Queensland (1994-95 to 1996-97)
(\$/MWh)



Source: Derived from SCNPMGTE (1998).

Figure 5.6 Average price (commercial/industrial) of selected electricity suppliers in New South Wales (1995-96 and 1996-97) and Queensland (1994-95 to 1996-97) (\$/MWh)



Source: Derived from SCNPMGTE (1998).

Data — albeit dated — on under- and over-recovery of costs for different classes of New South Wales electricity users shows that if charges are likely to reflect costs more closely under the NEM, then regional businesses could benefit from falling prices, while the opposite could be true of regional residential users (see table 5.2). Adverse impacts for some country users of a rebalancing of usage charges are likely to be ameliorated by ongoing cost savings from improved efficiency in service delivery. Access to the NEM appears to have been a major contributor to the price benefits already received by mining companies, larger local governments and agriculture-based firms located in regional Australia (such as the agri-food processing companies and cooperatives).

Table 5.2 Average level of cost recovery^a in New South Wales, 1994-95

<i>Distributor</i>	<i>Domestic</i>	<i>Small to medium business</i>	<i>Medium to large business</i>	<i>Rural</i>
	%	%	%	%
Northern Rivers	5	20	58	-39
Oxley	-7	15	10	-2
Namoi Valley	11	27	7	-44
New England	0	23	20	-40
Peel-Cunningham	11	19	6	-16
Southern Mitchell	25	25	-2	-19
North West	-7	5	-4	4
Ophir	-2	26	9	-45
Monaro	12	36	-	-108
Murray River	-7	26	21	-41
Murrumbidgee	-20	17	16	-
Northern Riverina	20	19	1	-38
Southern Riverina	-4	25	16	-38
Southern Tablelands	0	6	2	-54
South-West	16	30	24	-17
Tumut River	-4	3	7	-37
Ulan	7	29	5	-36
Western Power	7	24	8	-14
Central West	2	21	14	-29
Sydney	-2	20	-1	-
Orion	-12	15	2	22
Prospect	-4	21	8	-14
Illawarra	-20	22	20	4

Notes: Positive values indicate over-recovery and negative values indicate under-recovery. The figures have been rounded.

^a Based on the 'Kain' method of distributing joint costs across users.

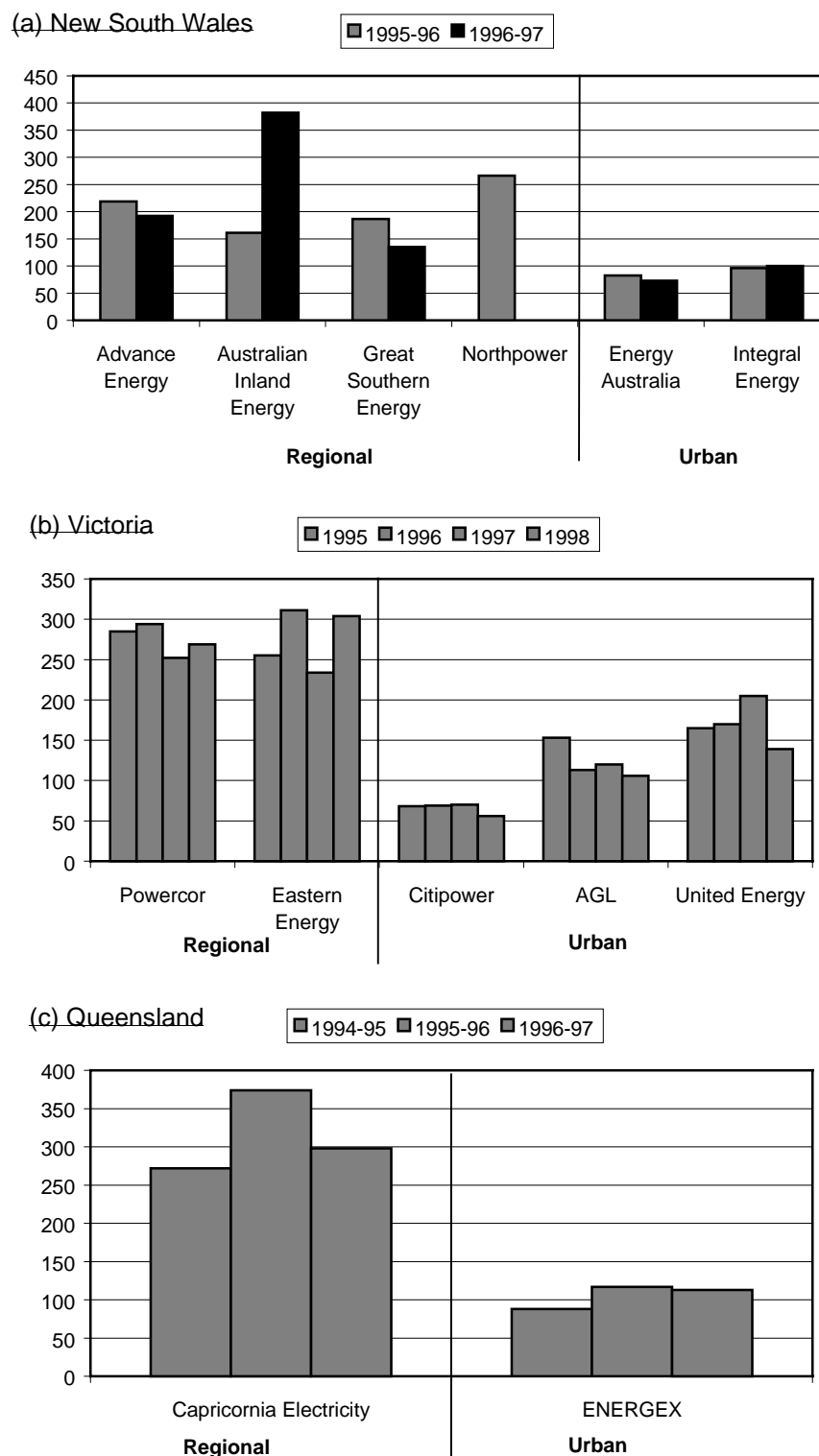
Source: Government Pricing Tribunal of New South Wales (1995, p. 7).

Service quality

Many inquiry participants suggested that price benefits from the electricity reforms have come at the expense of lower service quality — particularly in regional areas. For instance:

- The Rivmilk Co-operative at Wagga said that downtime costs due to poorer service were offsetting the gains of cheaper power.
- Ulmarra Shire Council reported more and longer outages, poorer response times and lower maintenance without any offsetting cost reductions.
- The Tumut Shire Council (sub. 43, p. 2) reported longer response times to outages and poorer maintenance of street lighting.

Figure 5.7 Average loss of supply per customer, for selected regional and urban suppliers of electricity in NSW (1995-96 and 1996-97), Victoria (1995 to 1998) and Queensland (1994-95 to 1996-97)
(minutes/customer)



Source: Derived from SCNPMGTE (1998).

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- The Junee Shire Council (trans., p. 976) said that the time taken for street lighting repairs, which must now be reported by property owners, is greater than under the old County Council structure. In the circumstances, the Shire Council was concerned about legal liability in the event of an accident due to poor lighting.
 - The Queensland Chicken Growers Association (sub. 94, p. 2) said that members had reported a steady decline in the reliability of supply.

Some other participants said that their quality of service had been maintained or improved. For example:

- De Bortoli Wines at Griffith indicated that services had improved significantly, while charges had been reduced.
- The Albury Shire Council said that its costs had fallen by \$250 000 a year without any reduction in service quality.

And Great Southern Energy stated that:

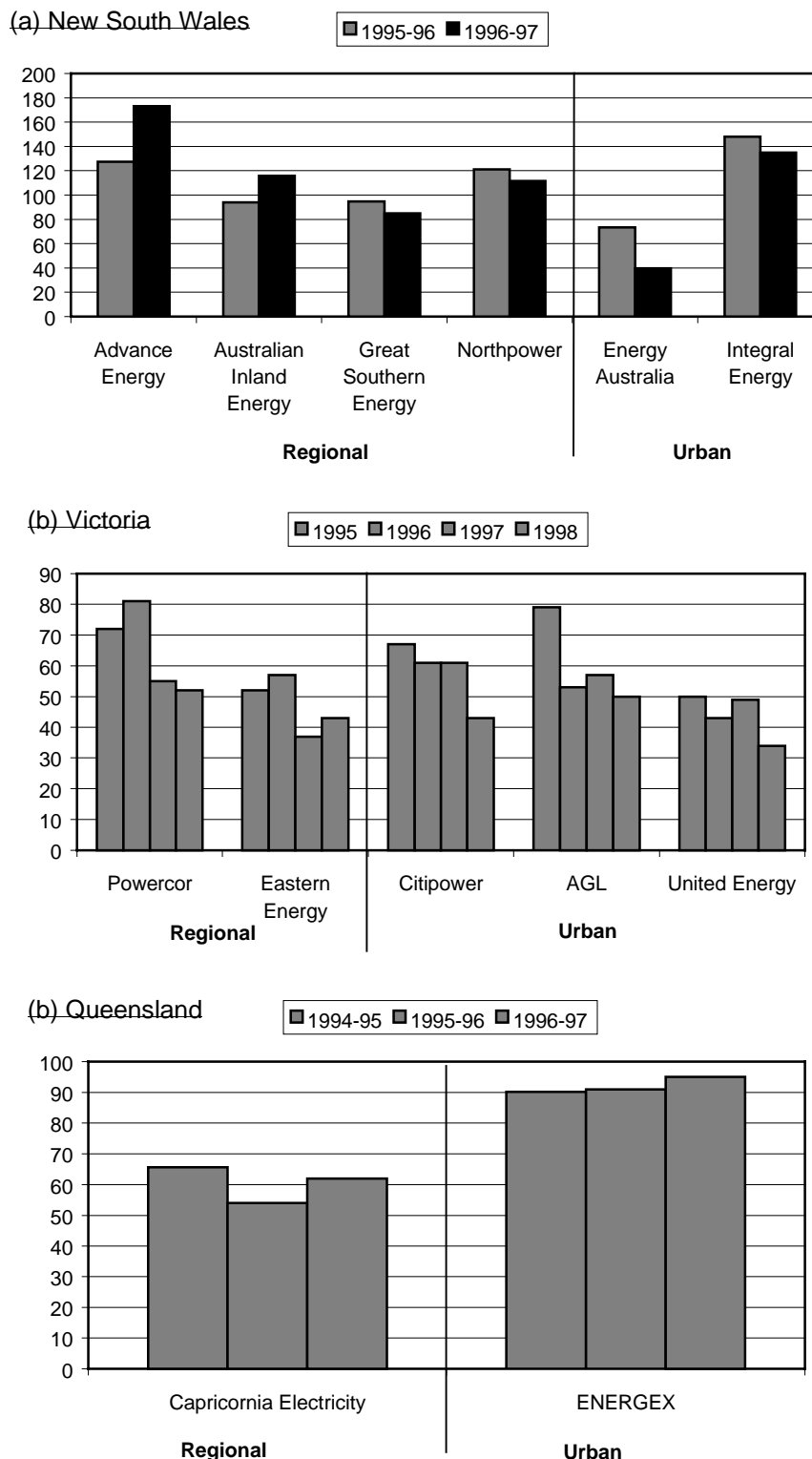
Reliability measures have indicated that outage times for customers have reduced since the establishment of Great Southern Energy and the use of technology to automate the distribution system and to therefore reduce system outages. (sub. 67, p. 4)

The Office of the Regulator General of Victoria (ORGV 1998) reported that service standards (such as time to restore supply) have improved, the number of restrictions of supply for non-payments of bills has fallen and innovative ‘customer friendly’ payment methods have been introduced. The information collected by the SCNPMGTE (1998) covers only two jurisdictions and a short period of time. However, it confirms the mixed story for regional Australia emerging from the anecdotal evidence. As shown in figures 5.7 and 5.8, average loss of supply and average outage duration has increased recently in a number of the regional utilities in the Steering Committee’s sample, but has fallen in others.

Employment impacts

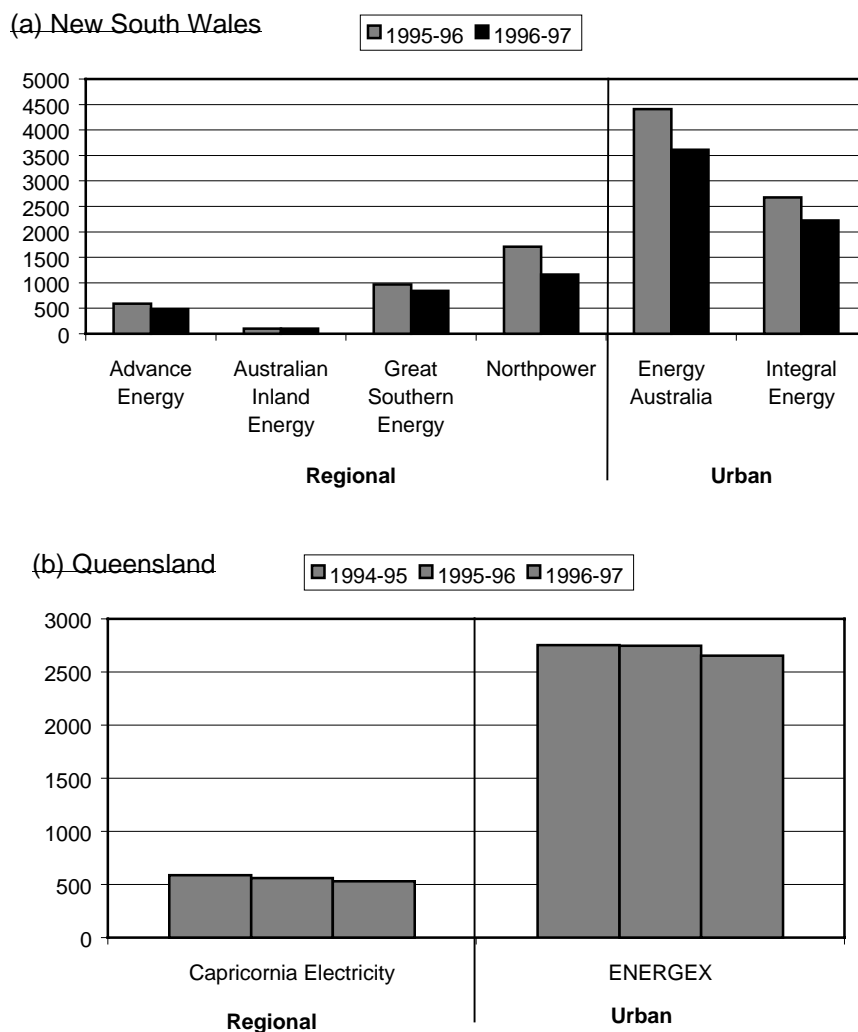
As noted earlier, many participants drew attention to the loss of public sector employment losses in country areas as a result of labour shedding and the rationalisation of service centres. Most significantly, the LaTrobe Shire Council (sub. 75, p. 1) said that, as a direct result of electricity reform, its region had lost between 6000 and 8000 jobs, equivalent to 10 per cent of the Shire’s total population. Large job losses also occurred in Port Augusta and the Hunter Valley.

Figure 5.8 Average outage duration for selected regional and urban suppliers of electricity in NSW (1995-96 and 1996-97), Victoria (1995 to 1998) and Queensland (1994-95 to 1996-97)
(minutes)



Source: Derived from SCNPMGTE (1998).

Figure 5.9 Average total employment of selected regional and urban electricity suppliers in NSW (1995-96 and 1996-97) and Queensland (1994-95 to 1996-97)
(number of employees)



Source: Derived from SCNPMGTE (1998).

Figure 5.9 provides a perspective on the overall reductions in employment by regional and urban suppliers in New South Wales and Queensland. In addition, participants provided a range of anecdotal information on the impacts of the rationalisation of service centres. For instance:

- The Bland Shire Council told the Commission that the number of local service employees in West Wyalong had fallen from 20 to 4.
- The Tumut and Cooma–Monaro Shire Councils (sub. 43, p. 2 and sub. 48, p. 2), which are now serviced by Great Southern Energy, reported that rationalisation of the electricity supply arrangements had led to job losses in their areas of 50

and 80, respectively. Great Southern Energy (sub. D293, p. 6) agreed that employment had been reduced, but contended that the job losses were 27 in Tumut and 34 in Cooma.

- The Glenelg Shire Council (Portland) reported that the closure of Powercor's service centre had reduced employment in the region by 200.
- The South Grampians Shire Council (Hamilton) said that the shire had lost 72 electricity jobs since 1991.

Labour shedding in regional areas has been, proportionately, little different from that in urban areas (see figure 5.9). Moreover, while the reforms have resulted in the closure of service outlets in some small communities, employment in larger centres which have become 'regional headquarters' has increased.

The overall employment reductions have contributed to significant improvements in labour productivity which, in turn, have created the scope for reductions in costs and prices in regional and urban areas alike. As noted in a meeting at Traralgon in the LaTrobe Valley, in the absence of the structural reforms there would still have been some employment reduction as a result of technological changes.

In absolute terms, employment losses in urban areas have been higher than in regional areas. However, the capacity of smaller country towns to absorb employment losses is generally less than in the larger cities and regional centres. This is particularly the case when such losses are added to employment reductions stemming from some other parts of the NCP and economic change more generally.

FINDING 5.1

In regional Australia, large users of electricity have enjoyed significant reductions in usage charges. As access to the contestable market (ie ability to choose supplier and negotiate price) is extended, direct price benefits for other businesses and households should also occur. Employment in the sector has fallen in both urban and regional areas.

5.3 Gas

Natural gas, which accounts for 18 per cent of Australia's primary energy consumption, is our fastest growing energy source (AGA 1998b, p. 30). It is expected to account for around 28 per cent of the primary energy market by 2010.

Natural gas is an important business input and alternative energy source to oil and coal. The metals, chemicals, glass, brick and cement, and electricity generation sectors are major industrial users of natural gas. It is also used in nearly three

million households, mainly in Victoria and New South Wales, with 100 000 new residential customers being added each year.

Australia's natural gas industry developed on a State basis, with exploration, production and distribution oriented to meeting the needs of individual jurisdictions. This has typically involved a single production joint venture providing a State's entire gas needs via a dedicated pipeline to a single gas retailer. Government ownership of utilities and extensive regulation of private gas suppliers have been other features of the industry. Further, legislation in some States has restricted the flow of natural gas both within and beyond State boundaries. Such restrictions were generally intended to avoid the risk of future gas shortages, or to ensure that gas was available to underpin industrial development within a State.

The dominance of a few producers, the existence of monopoly suppliers, the absence of interconnections between systems and a lack of third party access to gas pipelines, all served to limit competition in the gas industry. As a result, costs and prices were well above efficient levels and investors lacked incentives to expand the network. This penalised households and businesses alike.

The gas reforms

Gas reform commenced in the late 1980s with initiatives such as the Commonwealth's attempted privatisation of the Moomba–Sydney pipeline and the removal of the State Energy Commission of Western Australia's monopoly over gas supply.

Reform in the sector assumed a higher priority in 1991 with the release of a Commonwealth Government strategy paper (DPIE 1991). This focused on the development of free and fair trade and an integrated national pipeline grid, and the introduction of open access to pipelines on commercially non-discriminating terms.

Under subsequent CoAG agreements in 1992 and 1994, the following reforms were to be implemented by July 1996:

- the removal of all legislative and regulatory constraints to free and fair trade in gas;
- the introduction of a uniform framework for access to gas transmission pipelines;
- the corporatisation of the remaining government owned utilities;
- structural separation (or 'ring fencing') of publicly- and privately-owned vertically-integrated transmission and distribution activities; and

-
- the reform of gas franchise arrangements (with no deadline for implementation).

In April 1995, CoAG brought these reforms within the framework of the NCP reform process.

Progress in implementing the reforms

Since their inclusion in the NCP, gas reforms have progressed in three key areas — the development of a national access regime, the removal of legislative and regulatory barriers to competition and the structural reform of gas utilities.

- All relevant jurisdictions have now passed legislation giving effect to a National Access Code prepared by the Gas Reform Task Force. Each relevant jurisdiction has since applied to the NCC for certification of their access regimes.
- While the States and Territories did not meet the 1996 deadline for the complete removal of legislative and regulatory barriers to free and fair trade in gas, significant progress has been made in most jurisdictions. For instance, the Western Australian Government has reaffirmed its commitment to seek expressions of interest for a second pipeline to be constructed along the western seaboard without any legislative or regulatory barriers. A public review of the *Cooper Basin (Ratification) Act 1975* in South Australia identified a number of instances where the costs of restrictions on competition exceed the benefits. The South Australian Government is currently seeking further public comment on these matters.
- Within the NCP framework, there has been continuing structural reform of gas facilities. Some specific initiatives have included the privatisation of the Moomba–Adelaide pipeline in South Australia, the State Gas Pipeline in Queensland and the Dampier–Bunbury transmission pipeline in Western Australia. Further, all government-owned gas utilities have now been corporatised and, in some cases sold (eg the Victorian gas utilities) or prepared for privatisation. The latter has involved the separation of vertically-integrated transmission and distribution networks. Private sector gas utilities in jurisdictions other than South Australia and the Northern Territory have completed ‘ring fencing’ of their transmission and distribution activities.

Overall, the NCC, in its second tranche assessment, considered that gas reform was one of the major success stories of NCP. It said that, while some issues remain in relation to retail and intra-field competition and the finalisation of access arrangements in a few States, gas reform was largely complete. (NCC 1999b, vol. 1, pp. 8–9)

A snapshot of jurisdictions' progress in implementing the key elements of the gas reforms is provided in table 5.3.

Table 5.3 Status of jurisdictions' progress in implementing gas reforms, as at 30 June 1999

<i>Reform</i>	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>WA</i>	<i>SA</i>	<i>Tas^a</i>	<i>ACT</i>	<i>NT</i>
Third party access								
• NGPAC operational	✓	✓	□	✓ ^b	✓	na	✓	✓
• NGPAC certification	✓	✗	□	✓	✓	na	✓	✗
• phasing of transitional arrang'ts & derogat'ns	□	□	□	□	□	na	□	na
Free and fair trade								
• removal of legislative & regulatory restric'ns	□	□	□	□	✗	na	✓	□
• upstream competition	na	□	□	□	✗	na	na	✗
Institutional reform								
• structural separation	✓	✓	□	✗	□	na	□	✗
• corporatisation	✓	✓	✓	□	na	na	na	na
Independent pricing and access regulation								
	✓	✓	✗	✗	✗	na	✓	□

Note: The summary in the table is only a broad indication of progress. It does not purport to provide a complete picture of the details of reform implementation contained in the NCC's second tranche assessment.

✓ – implemented □ – implementing ✗ – little or no progress.

^a There is currently no natural gas industry in Tasmania. However, the Government signed the 1997 Gas Agreement and intends to introduce access legislation during 1999, with a view to the possible introduction of natural gas to Tasmania by 2002. ^b Although operational, it is not applicable to key pipelines until 1 January 2000 under code derogations.

NGPAC – National Gas Pipelines Access Code; **na** – not applicable.

Source: PC evaluation based on information contained in NCC (1999b) and submissions.

Participants' views on the reform process

Only a few participants commented in any detail on the gas industry reforms. This probably reflects the fact that greater significance is attached to other infrastructure reforms due, in part, to:

- natural gas not being reticulated in most of country Australia; and
- a fairly widespread perception that gas reforms will generate benefits that significantly outweigh any associated costs, including in regional Australia.

This latter point was made strongly by the Australian Gas Association (AGA), which contended that:

The process of gas reform, through improving the accessibility of natural gas as a clean, efficient and competitive energy source, has already influenced the locational decisions in favour of, and lowered business costs in, regional communities.

Natural gas pipeline infrastructure allows major energy users to invest in regional communities, and benefit from the economic and environmental advantages of natural gas. These are usually sizeable community investments, with substantial economic flow on effects in local employment. (sub. 38, p. 5)

Similarly, the Western Australian Chamber of Minerals and Energy pointed to the role of gas reform in stimulating new investment:

Recent years have seen billions of dollars worth of investment either committed or mooted into mineral projects. A key factor in making those investments economic has been the availability of cheaper energy as a result of deregulation, and energy is often one of the most significant cost inputs. (sub. 29, p. 3)

While supporting the general thrust of the reforms, the AGA (sub. 38 and trans., p. 881) expressed concerns that the benefits from gas reform could be reduced by:

- regulatory uncertainty and discretion in the application of the National Gas Access Code which, it claims, adds to compliance costs;
- the economic regulators not allowing adequate rates of return, commensurate with the risks, to encourage the further expansion of investment in pipeline infrastructure and thereby help underpin basin to basin competition; and
- delays in the pipeline approval procedures at the State level — involving approvals for access, pricing of access, the environment, cultural heritage, technical engineering etc.

The Australian Pipeline Industry Association (APIA) claimed that the industry was currently facing unacceptable delays and costs associated with inefficient regulatory approval arrangements. It said:

Some States are much better than others in terms of co-ordinating that overall process. Some States take a parallel approach and look at all these issues at once and give a final pipeline licence within a very reasonable timeframe of around eight months. Other States — and I would note New South Wales as the particular case in question for recent developments — can take more than two years. (trans., p. 883)

The APIA indicated that it took 28 months to obtain the necessary approvals for the interconnect project between Wagga Wagga and Albury. The costs of such delays were currently being absorbed for major projects, but, according to the Association, if those same delays were to be imposed on lateral pipeline developments servicing mining and other discrete regional markets, that would be a very significant impediment in the overall process.

Impacts of the gas reforms

The available evidence indicates that the NCP gas reforms are building on earlier reforms and providing significant benefits to many parts of Australia. In urban areas, the primary benefits have been price reductions — particularly for business users — and improvements in service quality. In country areas, the main benefit has been the stimulus provided to the extension of the gas network and the associated business opportunities which this has created.

Of course, these gains have not come without some costs. With the reforms to pricing structures, usage charges for some residential users have risen. There have also been employment reductions in the gas industry as public utilities, in particular, have addressed overmanning and inefficient work practices. However, given the concentration of the network in urban areas, these costs do not appear to have been very significant for country areas.

Accessibility of gas

The dismantling of barriers to interstate trade in gas — coupled with structural reforms, privatisation and increasing levels of competition — has accelerated the expansion of natural gas networks into country Australia. Those areas which have recently gained, or should in future gain, access to natural gas include:

- the Murray Valley area between Chiltern in Victoria and Deniliquin in New South Wales;
- Mildura and surrounding areas;
- the Bellarine Peninsula to the south of Melbourne;
- Yandina, Nambour, Gympie and Noosa in Queensland; and
- Kalgoorlie/Boulder, Mandurah, Busselton and the northern goldfields (Leonora) in Western Australia (AGA 1998a).

However, the Regional Development Council of Western Australia (sub. D262, pp. 2–3) cautioned that not all new connections were direct outcomes of, or conditional on, the NCP reforms and that some, such as Mandurah's access to the Dampier to Bunbury pipeline had been planned for many years.

A list of some of the main cities and towns which have been connected to gas in recent years is provided in table 5.4. This list is far from exhaustive, covering mainly those centres at the end of the extended pipelines. The AGA provided a further list of 91 towns across Australia which have been connected to the network

between 1990 and 1999. Figure 5.10 gives a graphical indication of the past and prospective expansion of the network.

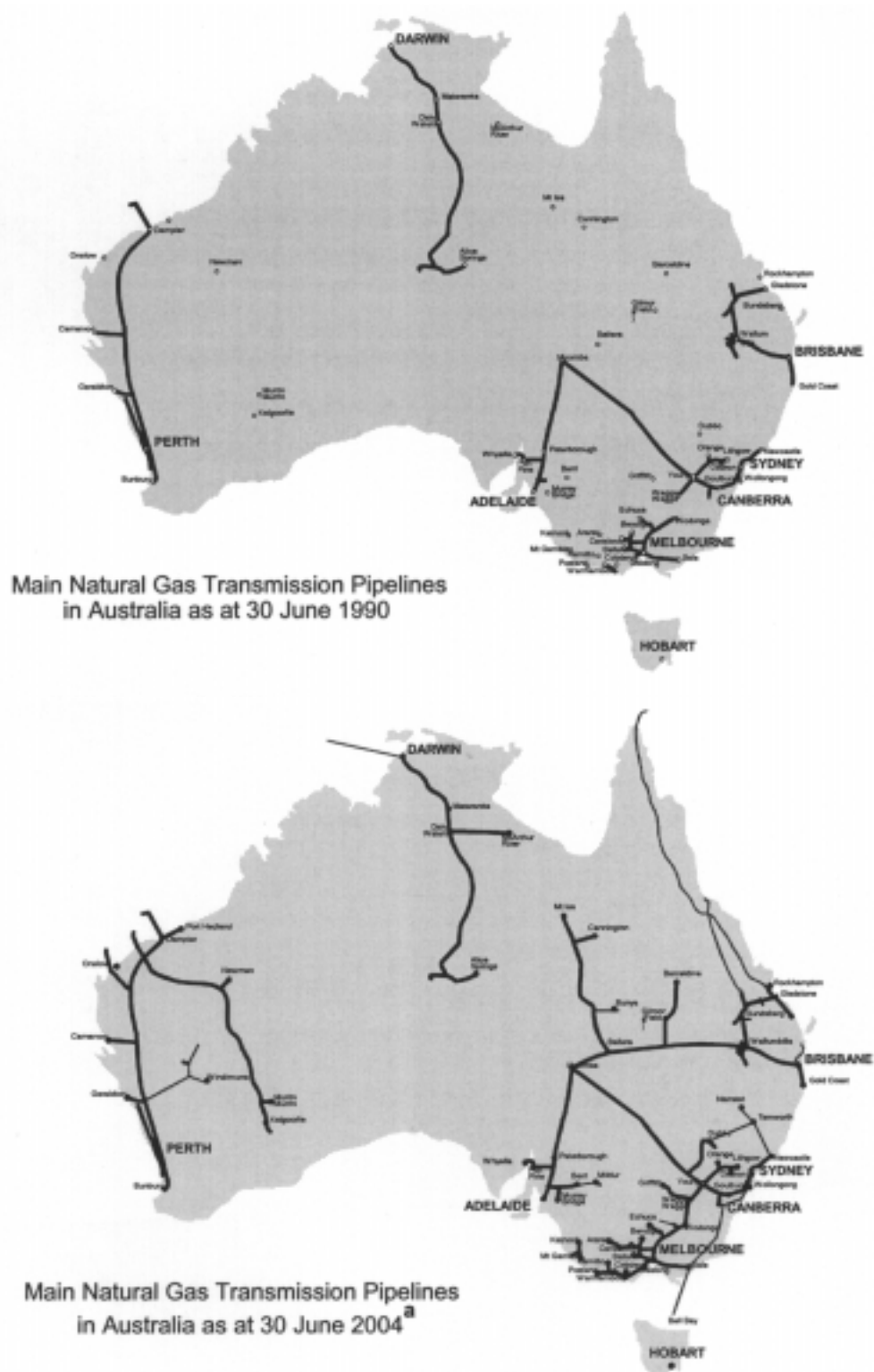
Table 5.4 Expansion of the gas pipeline network — main cities and towns^a etc connected between 1990 and 2004

<i>State</i>	<i>1990–1995</i>	<i>1995–1999</i>	<i>1999–2004</i>
New South Wales	Narrandera Leeton Griffith	Wagga Wagga Dubbo	Wilton Gunnedah Tamworth Narrabri
Victoria	Echuca Portland Hamilton Cobden	Ararat Stawell Horsham Lara	Baddaginnie Mildura
Queensland	Rockhampton Blackall Barcaldine Ballera	Wallumbilla Moura Roma Mount Isa Cannington	Townsville Gladstone Gympie Bundaberg Bunya
Western Australia	Onslow Varanus Island Thevenard Island Tubridgi Griffith Port Hedland	Newman Kambalda Yarraloola Wiluna Jundee Murrin Murrin Burrup Peninsula Karratha Kalgoorlie	Windimurra
South Australia	Snuggery Mt Gambier Katnook Berri Murray Bridge		
Northern Territory	McArthur River Mine		
Tasmania			Bell Bay
Kilometres expanded	2123	4411	6294

^a The towns listed are generally those at the end of the extended pipelines. Many more towns have been connected along the way (see text).

Source: Information supplied by the Australian Gas Association.

Figure 5.10 Expansion of the gas pipeline network from 1990 to 2004



^a Proposed pipelines, which are to be constructed between 1999 and 2004, are indicated by the thin lines.

Source: Maps supplied by the Australian Gas Association.

Greater access to natural gas in country Australia has created opportunities to establish new activities — for example, electricity cogeneration. It has also allowed existing firms (and some households) to substitute gas for other energy sources such as electricity and diesel fuel. In some uses — for example, process heating and, in remote areas, electricity generation — these alternative energy sources are inherently less economic than gas. Along with lower prices for some existing gas users in regional areas (see below), this has improved regions' competitiveness and growth prospects. As the AGA noted:

... natural gas allows enterprises in regional Australia to compete more effectively with businesses located in major urban areas, encouraging the decentralisation of production and distribution. (sub. 38, p. 5)

The AGA went on to note that new pipeline proposals, totalling 11 000 kilometres, which are currently under consideration will:

... have strongly positive regional effects. The pipeline projects identified by the AGA entail estimated investment of around \$6 billion over the next several years. (sub. 38, p. 4)

Gas prices

While the available information on changes in gas prices is not comprehensive, some general trends are apparent. In aggregate terms, usage charges have fallen in real terms — particularly for business users, who have benefited from a rebalancing of charges between business and households, as well as from the improvements in the efficiency of service delivery. For residential customers, outcomes have depended on whether cost savings made possible by improved efficiency have outweighed the price-raising effects of the rebalancing of charging structures. For example:

- NUS International (NUS 1999) found that, Australia-wide, gas prices for industrial and residential users fell by an average of 22 per cent between 1994 and 1998;
- in Western Australia, usage charges for residential users fell by 9 per cent in real terms between 1991-92 and 1996-97. Charges for business users (excluding contracts negotiated by major industrial users) fell by more than 10 per cent over the same period (PC 1998e, pp. 104-5);
- in Victoria, business customers enjoyed an average real price fall of more than 8 per cent over the period 1991-92 to 1996-97. In contrast, charges for residential customers increased by a little over 7 per cent during this time (PC 1998e, p. 105); and

-
- the Independent Pricing and Regulatory Tribunal (IPART 1997) estimated that more than 400 industrial and commercial gas users in New South Wales would receive cost savings averaging 20 to 25 per cent following the approval of a new access regime for gas distribution services provided by AGL.

Price reductions for industrial and commercial users have also been evident in country regions previously connected to the gas network. For instance:

- following gas deregulation in the Pilbara region in 1995, usage charges for large industrial users typically fell by more than 50 per cent (see box 5.1);
- the Western Australian Treasury (sub. D282, p. 3) cited a recently announced 25 per cent reduction in prices for gas from the Goldfields pipeline as a result of further competition in the gas supply market; and
- during a recent Industry Commission study (IC 1998b) of Australia's aluminium industry, Queensland Alumina Limited (QAL) said that:

In response to the National Competition Policy reforms ... the Queensland Government sold its interest in the State Gas Pipeline which runs from Wallumbilla to Gladstone ... QAL's gas transportation tariff immediately reduced by around 25 per cent and the tariff pricing principles provide for further incentive pricing as pipeline throughput increases. (IC 1998b, p. 77)

QAL anticipates further falls in gas prices in Queensland following moves by the State Government to approve access arrangements, along with licences to build pipelines linking the south west Queensland gas fields with existing markets in south east and central Queensland.

The combined impact of better access and lower prices on the competitiveness of user industries and the investment climate can, for example, be seen in the Pilbara and Goldfields regions in Western Australia and the Riverina area of New South Wales (boxes 5.1 and 5.2).

The aggregate reductions in gas prices during the 1990s have been underpinned by strong productivity gains (see figure 5.11). Industry-wide:

- customers per employee have more than doubled between 1992 and 1997; and
- real 'controllable' costs have declined by more than 40 per cent.

Open access arrangements for pipelines and the introduction of competition into some gas markets appear to have been particularly important in driving these productivity gains. Alcoa emphasised this point in the context of its alumina refinery operations in the south-west of Western Australia. According to the company, the access arrangements which now apply to the Dampier to Bunbury pipeline have allowed it to deal directly with gas producers rather than purchase gas

from the pipeline owner (which had a gas purchase contract with the joint venture partners in the North West Shelf project). Alcoa said that the access provisions had seen the company receive offers for the supply of gas from a number of suppliers. (IC 1998b)

Competitive pressures, and the likelihood of lower prices and/or better service (see below), will increase once all gas markets, including the residential market, become fully contestable in July 2002.

Box 5.1 Gas deregulation in Western Australia

In Western Australia, the phased and still incomplete deregulation of the gas market has seen gas prices for large industrial users typically fall by more than 50 per cent — particularly in the inland nickel and Goldfields areas. This has improved prospects for mineral extraction and processing.

Deregulation has been a catalyst for several major investments, notably the construction of the \$400 million Pilbara–Goldfields gas pipeline and associated infrastructure (mainly power generation plant, valued at \$270 million, as well as a \$250 million natural gas development off the north west coast), and the reticulation of gas in Kalgoorlie.

Perhaps more importantly, the pipeline cuts through some of the State's most significant mineral production areas, from the iron ore regions in the north west to the nickel and gold belt to the north of Kalgoorlie. Mines in these areas previously generated power on-site using diesel generators. Access to cheaper energy has cut production costs and has been credited by businesses as providing a stimulus to new investment.

Cheaper energy may also help Western Australia to develop major downstream processing industries (to supply major Asian markets) — industries which previously were deterred by relatively high energy costs.

The Goldfields–Esperance Development Commission (GEDC) (sub. D290, p. 10) said a perception had emerged recently in the region that the Goldfields Gas Transmission (GGT) tariffs were too high. This it said was demonstrated by the fact that many Kalgoorlie businesses were currently reluctant to enter into contracts with AlintaGas. The GEDC also pointed to Anaconda Nickel Limited's decision to enter into a joint venture with StateWest Power to build a \$100 million stand-alone pipeline to supply Stage 2 of the company's \$1 billion Murrin Murrin laterite nickel project — rather than purchase GGT gas, which it considered uneconomic for Stage 2. The Development Commission was sceptical whether any gas benefits would ever flow to the southern regions of Western Australia, as the markets were simply too small.

Sources: Chamber of Commerce and Industry, Western Australia (sub. 183, pp. 17–8) and Minerals Council of Australia (sub. D220, p. 2).

Box 5.2 Regional benefits of the Wodonga–Wagga Wagga pipeline

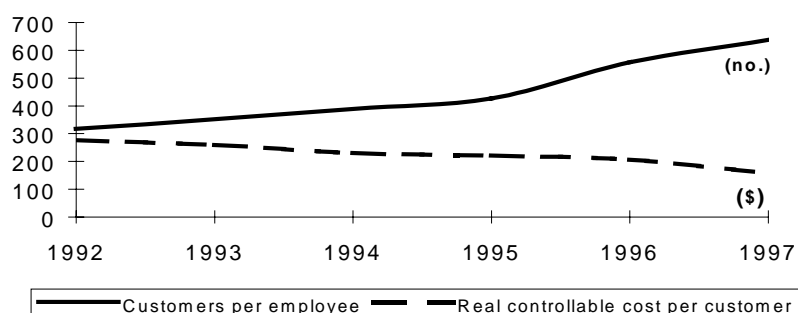
The expansion of gas supply in recent years to the Riverina and Dubbo/Parkes regions has boosted their economies. According to the AGA, in the Riverina region, access to natural gas in 1993 has increased employment and activity in existing industries, and assisted the establishment of new industries. In fact, the assessments indicate that many industries relocated in order to gain access to cheaper energy.

The AGA also noted that there could be long-term economic benefits in the Riverina region from the reticulation of natural gas to towns along the main pipeline. It said that larger firms could be attracted to the region based on access to gas, low cost land and labour, and existing transport infrastructure. For example, there is apparently scope for the energy-intensive food processing industry to move or expand from Wagga Wagga along the route of the pipeline.

The Association also pointed to the ongoing benefits to the Riverina from the maintenance of the pipeline and the operations of the compressor station.

Source: Australian Gas Association (sub. 38, p. 6).

Figure 5.11 Gas industry performance indicators, 1992 to 1997



Note: Controllable cost covers operational and maintenance costs of gas distribution at the firm level.

Sources: AGA (1998b) and information supplied by the AGA for 1997.

Service quality

The importance of service quality was highlighted by the failure in mid-1998 of the Longford gas plant, which denied gas to users throughout Victoria for some time. Information on service quality in the gas sector — which pre-dates the Longford incident — is limited and does not differentiate between outcomes in metropolitan and country areas.

There is some evidence of improvements in Victoria and Western Australia. For example, in Victoria, the proportion of calls for assistance answered within 20 seconds increased from 64 per cent to 84 per cent between 1991-92 and 1996-97. In

Western Australia, AlintaGas' response rate rose from 52 per cent to 81 per cent over the same period. According to the Western Australian Treasury (1998), AlintaGas' responses to 'broken mains/service faults' and to calls about 'gas smells' have also improved. The number of unplanned interruptions to gas supply in Western Australia has fallen since 1994-95, although interruptions in that year were higher than in 1992-93.

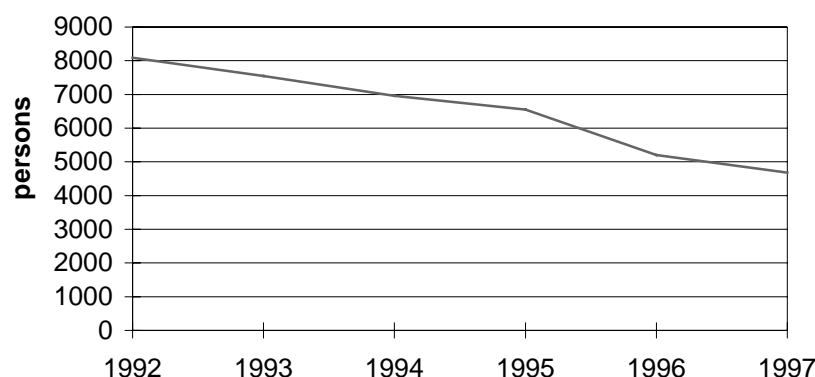
Employment effects

Apart from price increases for some residential users, the major adverse effect of the gas reforms has been a loss of employment in the industry. Information supplied by the AGA indicates that, between 1992 and 1997, six major gas distributors reduced their workforce by more than 40 per cent — equivalent to around 3400 jobs (see figure 5.12).

However, two points need to be made about these losses. First, most are likely to have been in metropolitan areas where the bulk of the sector's workforce is located. Second, there are several offsets to the employment losses shown in figure 5.12:

- increased employment in firms providing services to gas suppliers as a result of greater contracting out by suppliers;
- employment gains resulting from the expansion of the gas network into country Australia — both during the construction phase and after the network becomes operational; and
- higher employment in user industries which have become more competitive as a result of the fall in gas prices.

Figure 5.12 Total employment of six major distributors in the gas industry, 1992 to 1997



Sources: AGA (1998a) and information supplied by the AGA.

Indeed, because much of the expansion in the gas network has been outside the major metropolitan centres, the likelihood of an overall employment gain in country Australia is high.

Other impacts

According to the AGA, in some parts of Australia, the reforms will facilitate the evolution of specialist energy retailers who will compete vigorously for market share to the benefit of users:

In Australia, we are now seeing the emergence of ‘energy companies’ as the retail arms of former electricity distributors are becoming involved in gas marketing and the retail arms of former gas utilities are becoming involved in electricity marketing. ... In this increasingly competitive environment, gas retailers face the challenge of delivering gas as cheaply as possible, while providing better service to consumers who seek increasing quantities of this environmentally friendly fuel. (1998a, p. 136)

Improved access to services and lower prices resulting from the gas industry reforms could also give rise to environmental benefits. The largest potential gains arise in electricity generation from the substitution of gas for fossil fuels in large-scale generation plants and increased use of gas-fired cogeneration plants.

FINDING 5.2

The main impact of NCP gas reforms in urban areas has been a rebalancing of usage tariffs between businesses and households, which has seen large price falls for business users and more modest falls for households in all States except Victoria, in which there have been modest increases. For country Australia, the main benefit has been the stimulus provided by the extension of the gas network and the associated opportunities this has created for existing and new businesses.

5.4 Water

The water industry is one of Australia’s largest, with assets valued at over \$90 billion in replacement cost terms. Some \$40 billion of these assets are in country areas. Around 90 per cent of water supplied to non-metropolitan areas is used to irrigate crops and pastures.

In the past, government provision of water infrastructure was often used to support regional development in rural and remote Australia. An example is the subsidised development of the Fairbairn Dam in Queensland, which has contributed to economic growth in the Emerald shire since 1973.

Water is scarce in most parts of Australia. Yet often it has been poorly managed, misused and over-exploited. In recognition of these problems, reforms to improve pricing structures and the efficiency of service provision commenced in urban areas in the early 1980s. In country areas, however, the likely adverse social and economic impacts of such reforms on some sectors of the community posed a major stumbling block to change.

In January 1994, the Working Group (1994) which developed the CoAG water reforms identified the following problems in the water industry:

- a need to refurbish water assets in rural areas for which, in general, adequate financial provision had not been made;
- impediments to the transfer of irrigation water from low value broadacre agriculture to higher value uses in horticulture, crop production and dairying;
- service delivery inefficiencies;
- pricing regimes which often led to over-charging of commercial and industrial users of water services, the over-allocation of water (especially for irrigation purposes), environmental degradation and misallocation of investment; and
- a lack of clear definition of the role and responsibilities of government bodies involved in the industry.

Environmental degradation and its associated economic and social costs are particular problems in this sector. In this regard, the NCC observed that:

Many of Australia's river systems are in deep crisis. Outbreaks of blue-green algae, excessive diversions of natural flows, increasing pollution and rising instream salinity are all taking their toll. Native fish populations, and wetlands and streams, have been affected. There are salinity problems in many farming areas such as those in the Murray Darling Basin, and water quality and reliability is at risk in some catchments. (1998a, p. 207)

In recognition of concerns for the sustainability of New South Wales' water resources, the Government commented recently that:

The competing claims on our water resources necessitates a balancing act between maintaining natural processes within our riverine and groundwater systems while also supplying human, industrial and agricultural enterprises with necessary water.

It is the Government's expectation that establishing the appropriate balance will involve a combination of increasing water use efficiency, better flow management, the possible return to the rivers of some water now being diverted, and application of more environmentally sensitive land-use practices. These measures, in concert with market forces and associated regulation to protect basic aquatic ecosystem health, will lead to outcomes which achieve the best long term economic, social and environmental productivity from our water resources. (DLWC 1998)

The water reforms

The water reforms seek to improve the economic viability and ecological sustainability of water supply. In this regard, it is widely recognised that reform of financial arrangements alone would not necessarily address important environmental and social impacts, while over-emphasis on the environment would put the future of important rural industries at risk. Furthermore, short-term exploitation of the resource would undermine the interests of future generations.

In February 1994, CoAG endorsed a reform framework for the Australian water industry, to be implemented progressively through to 2001. Of the original commitments, the reforms of particular importance for this inquiry, in terms of their overall impact on rural and regional Australia, are:

- *Pricing reform* — involving consumption-based pricing and full cost recovery (including, where practical, a return on the written-down replacement cost of assets); the reduction or elimination of cross-subsidies; making any remaining subsidies transparent and, ideally, paid to the service deliverer as a community service obligation (CSO); and the setting aside of funds for future asset refurbishment and/or upgrading of government-supplied water infrastructure — for urban water services by 1998 and rural water supply by 2001.
- *Investment reform* — where investment in new rural water supply schemes, or in the extension of existing schemes, is to proceed only if an appraisal indicates that it is economically viable and ecologically sustainable.
- *Allocation and trading reforms* — requiring the implementation of comprehensive systems of water allocations or entitlements, including allocations for the environment, with water property rights separated from land title and clearly defined in terms of ownership, volume, reliability, transferability and quality, and with trading in allocations or entitlements by 1998 (including interstate trading where feasible).

With the April 1995 signing of the NCP agreements, implementation of these CoAG-initiated water reforms became a formal requirement under NCP. Further, the coverage of the reforms was extended to include groundwater supplies (both artesian and sub-artesian) and drinking water quality standards — the latter seeking to address water quality and health issues for country towns and cities alike. Subsequent reports undertaken for the Standing Committee on Agriculture and Resource Management (SCARM) and the Agricultural and Resource Management Council of Australia and New Zealand (ARMCANZ) have provided guidance on some specific implementation issues associated with the reform package. These have included reports on asset valuation, cost recovery, water allocation, groundwater and competitive neutrality issues.

The NCP package is designed to reinvigorate the water reform process, particularly in rural areas. In recognition of the more extensive public consultation likely to be required in these areas, the timetable for implementation of many of the rural water reforms is longer than that proposed for the urban water reforms.

Progress in implementing the reforms

Progress in implementing the reforms has been uneven across water use categories and between jurisdictions.

Urban

For water services supplied to households and businesses in cities and country towns, progress is well advanced in most States and Territories:

- consumption-based charging has been introduced progressively and property-based charges largely phased out. Overcharging of commercial and industrial users relative to households is being reduced or removed;
- there have been institutional reforms to increase the commercial disciplines on, and the accountability of, those entities delivering water and sewerage services. In most jurisdictions, urban water authorities have been moved out of government departments and corporatised. In some, commercial functions have been separated from policy and regulatory functions. In others, regulatory functions are provided for in legislation. For example, the Office of the Regulator General in Victoria has legislated (non-price) responsibilities with respect to metropolitan Victorian water authorities; and
- there has also been a significant increase in contracting out by urban water authorities. Of particular significance was the decision made by the South Australian Government in 1996 to contract out the entire management and operation of Adelaide's water supply to United Water.

Rural

Administrative reforms to improve the efficiency of the authorities delivering bulk water to irrigators have been put in place (many of these authorities also deliver water for town supply). As in the case of urban supply, administrative reform has sometimes involved the creation of independent regulatory bodies. For example, under New South Wales legislation, Independent Pricing and Regulatory Tribunal of NSW (IPART) has responsibility over the pricing of bulk water supplies to rural users.

Progress in implementing other reforms — involving rural (ie irrigation) water pricing, investment appraisal for irrigation projects, environmental water allocations, water property rights and the trading of water entitlements — has often been slow and variable. In these areas, there have been some significant differences between the States in their interpretation of, and approaches to implementing, some of these reforms. Partly because of this, in its second tranche assessment of governments' progress, the NCC (1999b) assessed that all jurisdictions, with the exception of Victoria and the Northern Territory, will be subjected to supplementary assessments (prior to the payment of the second component, in 2000, of the second tranche of competition payments) for a varying range of non-compliance with water reforms. The Commonwealth has withheld 25 per cent of Queensland's 1999 payment because of non-compliance with the investment appraisal principles for new water infrastructure.

A snapshot of jurisdictions' progress in implementing the key elements of the urban and rural water reform packages is provided in table 5.5.

Implementation issues

Implementation of the water reforms can be considered to fall within three distinct regional groupings — *metropolitan urban* (MU) water and sewerage services, *non-metropolitan urban* (NMU) water and sewerage services, and rural *irrigation* water. The issues, their complexity and the extent of consultation required to resolve them often differs quite considerably. For MUs and NMUs, the reforms are largely completed or well established.

In the case of rural irrigation water, however, there is a perception (particularly in New South Wales) that some reform initiatives may not be leading to appropriate or intended outcomes.

Water pricing

Nearly all pricing concerns raised by participants related to the implementation of the CoAG pricing reforms for rural water. In general, there was acceptance of the principle of full cost recovery pricing. For instance, the NSW Irrigators' Council said that it:

... supported the principle of all users paying, on a beneficiary pays basis, of the cost of the efficient supply of water. (sub. 211, p. 3)

Table 5.5 Status of jurisdictions' progress in implementing the urban and rural water reforms, as at 30 June 1999

<i>Reform (original date due)</i>	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>WA</i>	<i>SA</i>	<i>Tas</i>	<i>ACT</i>	<i>NT</i>	<i>MDBC</i>
Cost reform & pricing									
<i>– urban water (1998)</i>									
• full cost recovery	<input type="checkbox"/>	✓	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	✗	na
• two-part tariff	✓ most l'ger urban	✓	✓ most l'ge LGs	✓ major urbans	✓ urban ✗ bulk	✗	✓	✓	na
• reduction/elimination of cross subsidies	<input type="checkbox"/>	<input type="checkbox"/>	✗	✗	<input type="checkbox"/>	✗	<input type="checkbox"/>	✗	na
• remaining subsidies made transparent	<input type="checkbox"/>	<input type="checkbox"/>	✗	✓	✓	✗	✓	<input type="checkbox"/>	na
• +ve rate of return	✓	✓	<input type="checkbox"/> some l'ge LGs	✓	✓	✗	✓	✗	na
<i>– rural water (2001)</i>									
• full cost recovery	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	✗	<input type="checkbox"/>	na	<input type="checkbox"/>	<input type="checkbox"/>
• consumption-based pricing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	na	<input type="checkbox"/>	<input type="checkbox"/>
• reduction/elimination of cross subsidies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	✗	na	<input type="checkbox"/>	na
• remaining subsidies made transparent	<input type="checkbox"/>	✓	<input type="checkbox"/>	✓	✓	✗	na	✓	na
• rate of return	<input type="checkbox"/>	✓	✗	✗	<input type="checkbox"/>	✗	na	<input type="checkbox"/>	<input type="checkbox"/>
• sinking fund	<input type="checkbox"/>	✓	<input type="checkbox"/>	✗	<input type="checkbox"/>	✗	na	<input type="checkbox"/>	na
• investment appraisal	✓	✓	✓	✓ ecol ✗ econ	✓	<input type="checkbox"/>	✓	✓ ecol ✗ econ	na
Allocation & trading									
• environmental allocation	<input type="checkbox"/> reg ✗ other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	✗	<input type="checkbox"/>
• water property rights, separate from land	<input type="checkbox"/> reg/gw ✗ unreg	✓	✗	<input type="checkbox"/>	✓	<input type="checkbox"/>	✓	<input type="checkbox"/>	na
• trading in water entitlements (1998)	<input type="checkbox"/>	✓	✗	<input type="checkbox"/>	✓	<input type="checkbox"/>	✓	✗	<input type="checkbox"/>
Institutional reform									
• separate roles (1998)	✓	✓ rural <input type="checkbox"/> urban	<input type="checkbox"/>	✓	✓	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• holistic approach to resource managem't	✓	✓	<input type="checkbox"/>	<input type="checkbox"/>	✓	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	na
• ICM approach to water management	✓	✓	✓	✓	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	✓
• performance comparisons	<input type="checkbox"/>	✓	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	✓	<input type="checkbox"/>	na
• community consultation	✓	✓	✓	✓	✓	✓	✓	<input type="checkbox"/>	✓

Note: The summary in the table is only a broad indication of progress. It does not purport to provide a complete picture of the details of reform implementation contained in the NCC's second tranche assessment.

✓ – implemented ☐ – implementing ✗ – little or no progress na – not applicable

MDBC – Murray-Darling Basin Commission; **+ve** – positive; **bulk** – bulk water; **LG** – local government; **ecol** – ecological; **econ** – economic; **reg** – regulated; **unreg** – unregulated; **gw** – groundwater.

Sources: PC evaluation based on information contained in NCC (1999b); ARMCANZ High Level Steering Group (1999); and submissions.

In relation to the concept of ‘beneficiary pays’, the Council sought recognition that irrigators are not the only beneficiaries. Landholders, towns and other water users — including the community for recreational purposes and the environment — also benefit from, for instance, government expenditure on dams and/or actions taken by governments (which can have financial consequences for irrigators) to improve the health of a river system.

Most of the concerns raised were by New South Wales irrigator organisations, usually as part of more general concerns about changes being made in New South Wales to access to water for irrigation purposes (discussed below) and the costs of that water. Of these, the following three specific pricing issues are discussed below:

- charging for capital costs, for existing and/or new water infrastructure;
- the requirement for a depreciation charge and/or a sinking fund annuity for asset refurbishment and replacement purposes; and
- accounting for transmission losses.

In New South Wales, it is relevant to note that, from an NCP perspective, bulk (or headworks) water pricing is the only area of concern, as the retail price of water within the State’s off-stream irrigation schemes is now essentially in the hands of the irrigators themselves.

The New South Wales Government (sub. D283) emphasised that rural water prices were increasing from a very low base and that bulk water charges represented only a relatively small component of on-farm costs — 1–2 per cent for a large cotton farm and 5–7 per cent for a large rice farm. That said, it must also be recognised that irrigators have made substantial on-farm investments in channels, land forms and pumping and irrigation equipment in order to use effectively the water they have been allocated.

The predominance of New South Wales concerns about water pricing reform may simply reflect the stage of implementation in that State. The Victorian irrigation industry began to address the implementation of pricing reforms back in the early 1990s, while in many other States their impacts are yet to be fully considered.

Return on capital

In relation to charges for capital, the CoAG water pricing reforms for rural water specify:

- the achievement, wherever practicable, of positive real rates of return on the written-down replacement costs of rural water supply assets by 2001; and

-
- the setting aside of funds for future asset refurbishment and/or upgrading of government-supplied water infrastructure.

Initial concerns about varying interpretations among the States and Territories of the pricing and asset valuation principles required to meet the CoAG reform objectives were addressed subsequently by the CoAG Expert Group (1995) and SCARM (1997). As a result, compliance with the reform milestones is deemed met if cost recovery currently falls within a defined range — the lower bound being set at pricing for commercial viability, with an upper bound of full cost recovery, including a return on capital. The upper bound is to be achieved, where practical, by 2001.

Many irrigator groups argued that the capital costs of existing water infrastructure were sunk and, therefore, that no contribution to a rate of return should be expected. For instance, Murray Irrigation claimed that:

The capital invested in headworks and water distribution infrastructure has no alternative use and the investment is sunk. ... The original costs bear no relationship to the current use of the assets. (sub. D288, p. 1)

Similarly, Murrumbidgee Irrigation stated that:

The value of existing assets is irrelevant to today and tomorrow's pricing as there is no alternative use of the capital or asset. The investment is sunk and the inherent value of that investment is itself a function of the revenue derived from water prices. ... Pricing to cover the cost of capital should only apply to capital invested in new assets and not sunk investments, nor their renewal or replacement ... [which should be] ... funded by customers through annuity contributions. (sub. D272, pp. 3–4)

As noted by Murrumbidgee Irrigation, the value of established water infrastructure assets is a function of the revenue derived from water prices. This introduces an element of circularity to the application of the pricing and asset valuation rules. As explained by Marsden Jacob Associates:

... the current price is used to determine economic value but then the guaranteed rate of return on the economic value is used to determine price. (1997, p. ESiii)

This circularity means that a range of charges could legitimately be included in water prices charged by bulk water supply authorities, which would have differing price (and wealth) effects for irrigators.

In its determination of rural bulk water prices in New South Wales for 1998-99 and 1999-2000, IPART has not included a charge for a rate of return on existing assets, effectively treating them as sunk assets with no opportunity cost. For charges beyond operation, repairs and maintenance, however, it has included the costs of maintaining the service capacity of the infrastructure assets.

Clearly, existing irrigation infrastructure assets have value. Those values are reflected as part of the market values which irrigators place on bulk water.

As supplies of bulk water are scarce, the value placed by irrigators on those supplies reflects not only the prices charged by bulk water authorities, but also the demands for water for use in irrigation. Such demands are subject to considerable fluctuation in response to seasonal conditions, market-driven variations in the relative profitability of different forms of irrigated agriculture, the uncertainty of entitlement due to increasing environmental requirements and opportunities to trade bulk water to other locations and uses within river systems. CoAG water trading reforms (see below) have enhanced those opportunities and the relative scarcity of water is now reflected more accurately in transfer prices.

The water reforms have influenced more than irrigation infrastructure values. Prior to reform, prices charged for bulk water were insufficient to recover the costs of its provision. This benefit to (old but not new) irrigators, along with the benefits of irrigation, was capitalised in the value of irrigation land. However, the separation of water rights from land titles, as required under the CoAG reforms, has seen this value split into a value for the land that is able to be irrigated and a value of the water right — with the apparent effect of a transfer of value from the land to the water right.

As the value of bulk water rights is influenced by the prices charged for its provision, the inclusion of a zero rate of return on valuable existing sunk assets necessary for bulk water provision, avoids having to address difficult valuation/pricing problems. It also increases the value of those water rights.

Consistent with the lower bound of commercial viability, IPART has included a charge to cover the refurbishment and upgrading of existing bulk water assets in the prices charged for bulk water in the form of provisions for renewals annuities. In this regard, Murray Irrigation said that:

... we have to look forward. What is it going to cost to maintain the asset and should it be maintained? This is a really valid issue in terms of the future cost of these assets, and long-lived infrastructure must be maintained to extend its useful life. We have to ask questions like, “Will the asset be replaced? When will it be replaced? How much will it cost? What technology will apply?” Some of those questions are actually quite hard to answer. So what we would advocate is the use of a mixture of debt financing and an annuity for planned expenditure. This way you take the lumpiness out of it but you maintain your infrastructure. (trans., p. 260)

The differing treatment within and between the States and Territories of public capital invested in irrigation on the basis of the extent to which existing assets can be regarded as sunk has been held as being consistent with the ARMCANZ

guidelines for the implementation of the CoAG water reforms by its High Level Steering Group. The independent assessment of implementation of the agreed full cost recovery pricing for rural water under the NCP will be undertaken as part of the third tranche assessment (see chapter 4).

IPART's determination of New South Wales' bulk water prices emphasises the need for a sound basis for future development of water and involves a pragmatic approach to improving cost recovery pricing for rural water. Under it, there is provision for bulk water supply authorities to cover provision for asset refurbishment and upgrading of existing schemes, as well as the day-to-day operations of them.

Prices for bulk water from new irrigation infrastructure are to be set so as to include a return on capital. In this way, the opportunity costs of public investment in new irrigation infrastructure will be reflected in the price of bulk water for irrigation purposes.

Depreciation and sinking fund issues

The agreed requirement for full cost recovery in the pricing of rural water implies that bulk water prices include an appropriate charge above operating, repairs and maintenance costs for the depreciation of long-lasting assets. Conventional accounting practice has been to allocate the capital costs of such assets over their effective lifetimes using depreciation schedules chosen to approximate the diminution in value. On this basis, representative depreciation allowances are determined and included as part of prices for full cost recovery. However, in common with normal commercial practice, cash flows from the depreciation allowance and the financing of asset refurbishment and replacement are not explicitly linked.

A requirement of conventional accounting methods is that all assets whose value diminishes over time are subject to depreciation. The exclusion of some such assets, on the basis of their being sunk investments, would make inadequate allowance for refurbishment and replacement purposes.

The CoAG rural water reforms, by specifying that funds be set aside for future asset refurbishment and/or upgrading of government-supplied water infrastructure, explicitly link part of the depreciation allowance with the financing of refurbishment and upgrading. This has led to concern that there could be double counting in the charge included for depreciation of assets when determining full cost prices. For instance, Murrumbidgee Irrigation argued:

... it is entirely inappropriate to impose an allowance for depreciation and an annuity to finance refurbishment. Only the cost of consumption of the asset as represented by the future need for cash should be incorporated into pricing ... (sub. D272, p. 4)

As indicated above, IPART price determinations include the cost of funds set aside for refurbishment and upgrading of assets which it treats as sunk investments. This avoids double counting and is consistent with the CoAG's financing requirement for refurbishment and upgrading, and with including depreciation allowances to provide for the diminution in value of all irrigation assets in determining bulk water prices.

The treating of some existing irrigation assets as sunk investments for determining bulk water prices has taxation implications if applied to privately owned irrigation assets. Murray Irrigation said that, where irrigation boards are privately owned, assets need to be valued in order to claim depreciation against taxable income. Although unrelated to NCP, this may raise concerns about the taxation treatment of privatised irrigation boards. For instance, Murray Irrigation believed that assets with a low book value but higher replacement cost should be depreciated on their replacement cost, or that the Government should legislate to allow annuities for future replacement to be tax deductible.

Accounting for transmission losses

The Commission understands that Victorian bulk water providers are required to address transmission losses in their bulk entitlements and that some private irrigation schemes have already sought to address such losses in their pricing structures. In contrast, a number of New South Wales participants said that accounting for these losses in the State's bulk water delivery systems is non-existent and may give rise to inefficiencies in the utilisation of what is a scarce resource subject to increasing demands.

Caldwell and MacPhillamy (sub. 214) said that, in the Lachlan River system in central New South Wales, if a farmer at the bottom end of the system makes a request for 1ML of water, up to 6ML must be released from the dam. The MIA Council of Horticultural Associations (MIACHA) (sub. D242, p. 2) said losses along the Murray River may be even higher. However, despite such high transmission losses, the downstream farmer is presently paying the same price for a given quantity of water as an upstream counterpart. Caldwell and MacPhillamy suggested that there may be inefficient (ie incorrectly priced) downstream trading of water on the Lachlan to the detriment of upstream farmers and their communities. Such inefficiencies in water usage could increase as trade in water entitlements becomes more widespread.

The feasibility of differentiating water charges on the basis of transmission losses — as occurs, for instance, in the electricity industry — is a difficult and complex issue. In response to the draft report, Goulburn-Murray Water and a few other participants considered that much of these water transmission losses constituted environmental flows and that the remainder did not warrant the administrative costs involved in its recovery. The MIACHA (sub. D242, p. 2) believe it is an emerging issue, along with the associated issue of accounting for delivery quality, but they and others consider that there are more important issues to resolve in the interim.

Reflecting the views of a number of participants, the Association of Rural Water Authorities (sub. D296, p. 1) considered that defined water system areas should be regarded as whole entities and that transmission losses should not be reflected in pricing for the following reasons:

- the practical and engineering difficulties in precisely measuring varying losses in different sections of water system areas;
- differential accounting and recording requirements potentially leading to increased costs;
- net productivity of water, even allowing for any cost of transmission losses, is not necessarily lower in downstream areas; and
- the potential impact on communities who currently accept the appropriateness of rating/charging on an overall basis and are generally concerned about differential charges.

Notwithstanding these concerns, the Commission considers that accounting for transmission losses in surface water systems is an issue which will become more important as the value of water increases. To a large extent, the issue turns on the degree to which transmission losses represent environmental flows. It also has implications for the importance and use of groundwater resources downstream.

In addition to the inclusion of capital costs, depreciation and/or sinking fund annuities and, eventually, transmission losses in the implementation of full cost recovery pricing under the CoAG water reforms, there is the issue of the ‘spill-over’ effects of water use. In this regard, the Commission observes that the ARMCANZ High Level Steering Group has stated:

Priority needs to be given to identifying and including the costs of resource management and environmental degradation into [water] pricing. (1999, p. 4)

Investment appraisal — new rural water infrastructure

The perception in Queensland is that the NCP's investment appraisal requirement for all new rural water infrastructure virtually precludes the construction of new dams required for further, especially inland, development in that State. The Hon. Rob Borbidge MLA, Queensland (sub. D279) argued that the developing nature of Queensland's economy, as compared with the more mature economies in New South Wales and Victoria where infrastructure development for irrigation purposes had largely been completed, was constrained by NCP.

The Queensland Government (sub. 202) recently promised to spend \$1 billion over 15 years on new water storages. In doing so, it and the Queensland Farmers' Federation (sub. 90) argued that subsidies for new water infrastructure are allowable under general NCP provisions, provided that they are transparent and defined as CSO payments.

In commenting on these issues, the NCC noted that:

... water reform will mean that ... governments will need to look closely before deciding to invest in new dams.

But, it does not preclude investment in new dams, nor does it prevent governments from subsidising water where this is justified for legitimate social reasons. The CoAG water agreement does allow governments to provide genuine CSOs to disadvantaged communities. At the same time, it does not provide scope for governments to circumvent the pricing reforms through the adoption of contrived definitions of CSOs. (Samuel 1998a, p. 5)

More specifically, the NCC said that:

While the Strategic Framework does not make provision for subsidised pricing arrangements for new schemes or extensions to existing schemes, the Council accepts that in exceptional circumstances it may be possible to argue a case for subsidisation of new schemes. An example of this may be where a dam provides a community recreational facility as well as an irrigation facility ... The Council will need strong economic justification if it is to assess that a jurisdiction that subsidises new investment has met its NCP obligations.

Allied to this is a requirement that the process of assessing economic viability be robust. For example, the Council would have serious reservations about an assessment that a project is economically viable where government capital grants are included as a benefit and where viability is assessed on the basis of a less than commercial rate of return. (1998f, p. 6)

In its recent second tranche assessment of Queensland's progress in implementing the NCP water reforms, the NCC (1999b, p. 476) recommended the suspension — until at least December 1999 — of 25 per cent of that State's 1999 competition payment for non-compliance (on a number of counts) with its commitment to:

... conduct robust independent appraisal processes to determine economic viability and ecological sustainability prior to investment in new rural schemes, existing schemes and dam construction. (NCC 1999b, p. 469)

This recommendation was accepted by the Commonwealth Government. The principal concern was with Queensland's St George Off Stream Storage proposal. The Council noted that, of all the options modelled:

... the preferred option was that which provided the greatest economic disbenefit [and] ... also appears to have had the least environmental support. (NCC 1999b, p. 475)

Consequently, it assessed that the decision to proceed with this project was neither economically viable nor ecologically sustainable, and that 'a credible and convincing net benefit to the community' had not been demonstrated. The Queensland Government (sub. D302) questioned the NCC's assessment:

Queensland questions the NCC's technical capacity to assess the merits of this scheme or to 'second guess' the legitimate decision making process of the Queensland Government on matters of public interest. ... Further, the NCC has ignored detailed information provided by the Queensland Government which clearly demonstrated that water development projects were justifiable both economically and ecologically. (sub. D302, p. 3)

The substance of Queensland's concerns (and those of any other State government) could be considered in the scheduled review of the NCC (see Chapter 11).

The Commission notes that NCP does allow governments to provide subsidies on behalf of the wider beneficiaries of new dams, provided that they can demonstrate legitimate social reasons for doing so. However, even in the absence of studies which provide evidence of justifiable net public benefits, there is nothing effectively preventing the Queensland Government from proceeding with its proposed water infrastructure projects, provided that it is prepared to forgo competition payments.

The Commission concurs with the NCC's desire to see thorough appraisals of new water infrastructure investments. It is, however, concerned that any inappropriate application of the social benefit concept could weaken the discipline imposed by the investment appraisal reforms. This, in turn, highlights the importance of publishing benefit-cost studies of major new infrastructure investments and clearly identifying the nature and magnitude of social and environmental benefits and costs — thereby enabling informed judgements to be made about the relative significance of the latter.

The Commission notes that the concept of 'net present value', as applied in a cost-benefit analysis of long-lived assets such as a dam, recognises that there are early large capital costs which have to be fully recouped over the economic life of the

project. It recognises equally that current users should not be expected to bear all of these up-front costs. An investment in new water infrastructure does not have to operate on a positive cash flow basis from day one. As is the case with all large infrastructure investments, operating losses will be usual in the early years and do not in themselves invalidate the possible long-term net benefits. Accordingly, in the early years of a dam's life, when the quantity of water supplied is small relative to that which will be supplied in later years, charges faced by individual users will not cover full costs. Thus, there is no 'penalty' for early users of such assets.

RECOMMENDATION 5.1

All benefit–cost studies of major new water infrastructure investments should be publicly available and clearly identify the nature and magnitude of any social and environmental benefits and costs.

Allocations and property rights

NCP requires jurisdictions to recognise the environment as a legitimate user of water and make appropriate allocations. This has increased irrigators' awareness of the measures being used by governments to address this issue — particularly in over-allocated systems, where the required reduction in allocations and the consequent impacts are likely to be most significant.

The over-allocation problem appears to be greatest in New South Wales. In this regard, the NSW Irrigators' Council commented that:

Over the last few years, licences have been progressively changed to volumetric entitlements, water trading has been allowed and restrictions on agricultural uses of water removed. In a country where there is more land to farm than there is water presently available, demand for water is increasing. There is demand from existing entitlement holders for maintenance of historic use and for further development. There is demand for water entitlements for new irrigation investments. There is increasing demand from tablelands farmers for irrigation development. There is the traditional competition between farming and grazing; and there is demand for water by other industries, particularly mining, fishing and urban water. Claims now exceed the water resources available in most years. (sub. D280, p. 2)

This imbalance has resulted in a significant change in policy direction in recent years. In particular, Murray Irrigation (sub. D288), Murrumbidgee Irrigation (sub. D272), the Southern Riverina Irrigation Districts' Council (SRIDC, sub. D295), the NSW Irrigators' Council (sub. D280), Phillip Caldwell (trans., pp. 907–36), Colly Cotton (trans., pp. 154–68) and Macquarie Food and Fibre (trans., pp. 1049–59) complained that certain actions and inactions of the State Government were contributing to the erosion of their water allocations, without compensation. They indicated that this decline in the reliability of their allocations

was occurring partly as a result of the Government's inaction on the provision of secure 'property' rights to water — originally required to be implemented by 1998. Other contributing factors are:

- the legislated separation of water rights from land titles in regulated river systems, which has resulted in the activation of 'sleeper' and 'dozer' (ie previously unused or only occasionally used) licences; and
- the administration of the 'MDBC cap' and 'translucent dam' policies, designed to address the current imbalance between extractive use and the environment.

Caldwell and Macphillamy (sub.214) indicated that, under recent State Government water-sharing proposals, irrigators in the Lachlan Valley would see their allocations reduced by 45 per cent. Similarly, Murray Irrigation (trans., p. 236) stated that the reliability of its customers' allocations has been cut to 87 per cent — down from an average historical usage of 111 per cent of the bulk water allocation. This, it said, translated to a loss of 269 000ML of water, or \$104 million (ie around \$400/ML on the permanent transfer market) to local irrigators.

The administrative withdrawal of allocation has created uncertainty which was claimed to be having an adverse impact on affected irrigators and their communities. This uncertainty has led to a call for 'full Torrens Title' to be recognised in the development of water property rights, whereby if its use were to be withdrawn by governments, compensation would be due. The NSW Irrigators' Council (sub. D280) and others considered that there is also a need for tradable infrastructure access rights to the storage and delivery systems. This, it said, would entail the adoption of a system of entitlements based on 'capacity sharing' — rather than the existing system of 'annual allocations' — as a means of providing water users with a transparently secure water right. In terms of defining the specific characteristics of an effective property right for water entitlements, Macquarie Food and Fibre suggested:

It needs to be separate from a land right. It needs to be specific and have appropriate tenure, allowing for long-term planning. It needs to be exclusive, where the benefits and costs associated with a right are attributed to the owner. It needs to be enforceable and enforced, and it needs to be transferable and basically bankable. (trans., p. 1057)

For efficient trade in water allocations or entitlements to occur, both buyers and sellers must be confident that they clearly understand which rights are being traded. Box 5.3 compares water rights as they currently exist in Victoria with those in New South Wales.

Box 5.3 Water property rights — a comparison of the New South Wales and Victorian systems for the provision of water entitlements

This box provides a brief overview of the water entitlements and rights systems existing currently in Victoria and New South Wales.

<i>Key items</i>	<i>Victoria</i>	<i>New South Wales</i>
Allocations		
Initial allocation	<ul style="list-style-type: none"> • a 3ML/ha water right, as a 'high security' allocation and a 3ML/ha water right, as a 'sales water' allocation. 	<ul style="list-style-type: none"> • a 6ML/ha water right, all as a 'general security' allocation. • can purchase 'high security' water or convert 'general security' (50% conversion factor).
'Sleeper' and 'dozer' licences	<ul style="list-style-type: none"> • when implementing MDBC cap, found gravity scheme irrigators using both 'high security' and 'sales' water allocations. • river pumpers only ever used 'high security' allocation. • Government withdrew pumpers 'sales' allocations. 	<ul style="list-style-type: none"> • when implementing MDBC cap, found public gravity scheme irrigators had high activation of water licences. • private river pumpers initially had low activation. • under-used allocations allowed to be activated and sold on the transfer market. • allocation 'clawback' experienced by general security licence holders.
Entitlements/rights		
Nature of water entitlement	<ul style="list-style-type: none"> • bulk entitlements (3 types), which define the relationship between the Crown, bulk entitlement holders, users and the environm't. • <i>source</i> entitlements — the right to harvest direct from a waterway, with specific rights to volume, capacity share and passing flow. • <i>delivery</i> entitlements — the right to divert from a regulated waterway operated by another authority, with specific rights to volume, security and restriction. • <i>hybrid</i> entitlements — a bit of both. 	<ul style="list-style-type: none"> • seven broadly specified water <i>values, permissions and rights</i> covering such things as: recreational water rights; off-allocation flows; riparian water rights and farm dams; unregulated and regulated river water licences; high yield bore licences; mining companies and corporate water licences; and water licences for the Sydney and Hunter Water Corporations, and irrigation trusts and corporations.
Nature of water right	<ul style="list-style-type: none"> • volumetric ; perpetual • separate from land title • tradeable and enforceable. 	<ul style="list-style-type: none"> • varies between regulated and unregulated river systems. • irrigation licence — 5 years. • others — 10 to 20 years.
Water trading		
Nature and extent of trade	<ul style="list-style-type: none"> • direct farmer to farmer transactions, through a water broker or via a water exchange. • temporary transfer: up to 20 000ML p.a. • permanent transfer: up to 250 000ML p.a. 	<ul style="list-style-type: none"> • direct farmer to farmer transactions, through a water broker or via a water exchange. • temporary transfers: between 190 000ML and 650 000ML p.a. • permanent transfers: between 10 000ML and 50 000ML p.a.
Processing of transfer	<ul style="list-style-type: none"> • temporary — a few days. • permanent — two months (average). 	<ul style="list-style-type: none"> • temporary — 4 to 8 weeks. • permanent — up to two years.
Key trading constraints and impediments	<ul style="list-style-type: none"> • channel capacity; 2% pa limit on permanent transfers out of one system; and compliance with the Murray-Darling Salinity and Drainage Strategy. 	<ul style="list-style-type: none"> • varying trading rules within individual schemes, including restrictions on which rights can be traded and how far.

Sources: Discussions; transcripts; submissions; DLWC (1998); and NCC (1999b, vol. 3).

In line with the views of many irrigator groups, Murray Irrigation said that, while the basic problem has been caused by the Government issuing too many licences, the whole entitlements issue has been exacerbated by the fact that:

Currently, environmental allocations are not a fixed point in the water debate and the green goal posts are constantly shifting. This situation is causing significant uncertainty in New South Wales and will only be resolved by the introduction of clearly defined entitlements for water users and the environment, including in-stream uses. ...

In the case of over-committed resources, ... the only equitable and efficient way of reallocating over-committed resources is to purchase entitlements and allocate these entitlements to specific, defined environmental purposes. (sub. D288, p. 3)

Over-allocation is a particularly difficult issue. Users have made (often significant) investment decisions on the basis of existing water allocations or long-standing access rights. These rights are becoming increasingly formalised and tradeable, thereby highlighting and increasing their value.

Some argue on equity grounds that there is a case for some 'clawback' of over-allocated water rights from those who have benefited from that over-allocation. Others argue that if governments decide to attenuate existing water rights, then those right holders should be compensated. The MIACHA (sub. D242, p. 3) estimated that a voluntary buy-back scheme in the Murrumbidgee Valley (assuming 15 per cent over-allocation) would cost between \$175 million and \$350 million, and up to \$1 billion across New South Wales.

In providing for environmental flows, the Commission observes that governments have two main options to consider. The first would be to give an 'environmental flow manager' a defined capacity share of the storage capacity (coupled with a continuous accounting system for sharing inflows), which would generally involve some form of uncompensated allocation 'clawback'. The second would be to purchase the additional water for environmental uses from existing users. The latter approach would achieve two things. It would compensate those who forgo established water entitlements; and it would clarify the opportunity cost of allocating water between environmental and commercial uses so that society could make an informed choice between them. However, this option may be difficult to implement in the absence of well-established, extensive water markets and because of current differences between States in the nature of entitlements and restrictions on allowable trade.

At the same time, those landholders, irrigators, towns and other water users along a river, will be among the groups benefiting from action which improves the environmental health of the river.

The Industry Commission (IC) recently considered the issue of how to address environmental allocations in over-allocated systems in its report on Ecologically Sustainable Land Management (IC 1998a, pp. 249–53). In that report, the Commission concluded that an ‘environmental flow manager’ should be appointed in each river system and vested with an initial viable minimum ‘passing flow’ allocation — which would generally not be tradeable, at least for a minimum ‘learning’ period — and thereafter be required to manage environmental flow requirements by buying and selling entitlements in the open water market.

The information presented to this inquiry does not contradict this finding. The Commission also notes that a detailed implementation framework has been developed by Marsden Jacob Associates (1999) for progressing the allocation, rights and trading reforms in New South Wales.

The NCC recently assessed New South Wales’ progress in implementing these reforms for second tranche payment purposes. The Council noted that while water entitlements for regulated rivers and groundwater licences “may be sufficient to meet mere reform commitments”, entitlements for unregulated rivers remain linked to the land title and are not measured volumetrically (NCC 1999b, vol. 2, p. 318). Consequently, the NCC considered that New South Wales had not fully met its reform commitment in this area.

The Commission considers that the provision of secure and well-specified water property rights is essential to ensuring that beneficial water markets operate efficiently. Any unnecessary delays in implementation adds to uncertainty and postpones the potentially significant gains from this reform for regional Australia. In particular, without effective specification, the potential benefits of trade in water could be greatly diminished.

For this reason, the Commission is concerned that an agreement has apparently been made to extend the timeframe for jurisdictions to ‘substantially complete’ their water allocation and trading reform commitments — from the original end date for full implementation of 1998 — to 2005 (see NCC 1999b, vol. 2, p. 319).

Other impediments to water trading

Water trading is seen to be strongly correlated with regional jobs growth in Victoria, as more profitable uses of water, such as viticulture and horticulture, involve more intensive farming. In recognition of these potential gains, the Government has given priority to the removal of impediments and restrictions to trading. However, in New South Wales, participants identified a number of impediments to the more widespread, permanent trade in water rights (ie in addition

to the lack of secure rights discussed above). They include the time taken to approve transfers, administrative restrictions on the breadth of trade and the lack of appropriate and timely information relevant to water trading.

The SRIDC (sub. D295) and others indicated that permanent transfers of water entitlements can take several seasons to process in New South Wales. They said this was due principally to the extensive *Environmental Impact Statement* requirements and the absence of appropriate water resource management plans in many areas.

Administrative restrictions are also often imposed by various irrigation schemes on who can transfer what and where on the water market. The desire of many local governments and irrigation schemes to retain the water rights within their boundaries reflects three objectives:

- to capture the regional gains from the more profitable use of that water;
- to avoid reductions in land values and thus, the impact on overall ratings; and
- to ensure that the fixed costs of operating schemes do not have to be borne by a small number of users, thereby avoiding possible price increases for the remaining irrigators.

The SRIDC (sub. D295) also claimed that more appropriate and timely allocation and pricing information was required to promote trading, particularly permanent trades. For instance, it said that allocation announcements made on a monthly basis, as occur presently in the Murray Irrigation District, have raised concerns about the efficient operation of market markets. The Council believed that such announcements could be provided, at the very least, on a weekly basis.

Concern about the potential for market failure due to the existence of information asymmetries in water markets will be overcome by governments' widespread dissemination of additional research in this area and the further development of water exchanges (ie clearing houses and information repositories for water trades).

Economic and social impacts

Much of the benefit from water reform will come from the more sustainable exploitation and efficient allocation of a scarce resource which is subject to increasing demands, and more efficient investment in infrastructure. To achieve these outcomes, water prices for many users will have to increase to reflect more closely the costs of its provision. Thus, the water sector is different from sectors such as electricity where much of the potential gain lies in reducing the price of services. That said, the extent to which water prices actually rise will depend largely on the ability of service deliverers (and regulators) to increase efficiency and

contain costs. In addition, if water trading allows water to be allocated to higher valued (ie more profitable) uses, the value of agricultural production is likely to increase. Higher water prices do not necessarily mean that there will be a smaller farming sector (see 'Water trading' section below).

The modest progress to date in implementing the reforms, particularly in rural water, means that the detailed impacts have yet to become apparent. Again, this is in contrast to the electricity and gas sectors, where the reforms are further advanced.

Price effects

Household and commercial supply

Most of the information on the impacts of the reforms on the price of water services relates to households and businesses in metropolitan areas. Between 1991-92 and 1997-98, real prices for metropolitan urban water fell in New South Wales and Victoria — in the former by about 30 per cent — but rose in other jurisdictions.

Within metropolitan areas, business customers have generally fared much better than households. This has reflected a realignment of charges to ensure that households pay a more appropriate share of system costs. The benefits to business from such realignments are reflected in the findings of a study by NUS International (1998). It indicated that the price of water services for commercial users in Sydney and Melbourne fell, on average, by nearly 40 per cent in 1997. This sharp drop in prices was due primarily to the restructuring of charges in Melbourne, where the State Government has fully implemented consumption-based pricing and eliminated cross-subsidies between the commercial and residential sectors.

Price outcomes have not been adverse for all urban households. The Victorian Government (1998, p. 9) indicated that, in Melbourne, the move to cost-based pricing has resulted in lower bills for 85 per cent of properties. Subsequently, the ORGV reported that, since 1 January 1998, the water and sewerage bill of an average household in Melbourne has fallen by approximately 20 per cent, or \$135 a year (in 1997-98 prices). Similarly, it said that water customers in regional Victoria have received an average 18 per cent reduction in their bills over the same period.

Aggregated price information is generally not available for water services in country towns, but anecdotal information suggests that the pattern of outcomes may be similar to that in metropolitan areas. For example, the Emerald Shire Council, in Queensland, told the Commission that individual businesses in its town will, on average, be about \$270 a year better off under a two-part tariff structure to be implemented during 1999. At the same time, the move away from property-based

charges has resulted in higher prices for some domestic users, particularly for larger households and those with a lower property value. The Council went on to indicate that, to achieve full cost recovery, it needed to raise its prices for sewerage by 88 per cent, and for water by 41 per cent.

Again in Queensland, the Boonah Shire Council (trans. p. 729) indicated that full cost recovery for its raw water supply would imply a tenfold increase, from \$8300 to \$83 000, in its bulk water charge. It said that this would mean a 20 per cent increase in rates, or \$44 per annum, for its water users. The Queensland Government responded by informing the Commission that:

Under the terms of the old water supply contract, water was supplied to the Boonah Council at \$7.30/ML. The full commercial price of the water is assessed by State Water Projects (SWP) to be \$93/ML. At \$7.30/ML, the price of water supplied to the Boonah Council was amongst the lowest in the State. Neighbouring councils such as Ipswich and Beaudesert pay bulk water charges of \$110/ML for water supply from the South East Queensland Water Board.

It is understood that a price path until 2004 (to provide for a gradual increase in water prices) will be negotiated by SWP with the Boonah Council. (sub. D302, p. 9)

It is important to note that the adverse effects of water pricing reform in some country towns have been ameliorated by the provision of explicit CSO support. For example:

- in 1996-97, the South Australian Water Corporation received \$72 million from the South Australian Government to fund CSOs. The Corporation's major CSO is the provision of services in country areas at the same price as in Adelaide;
- in the same year, the Western Australian Government provided its Water Corporation with \$182 million for CSOs — mainly the provision of services outside the metropolitan area at less than full cost; and
- in Victoria, the Hardship Grant Scheme was extended to rural Victoria.

Irrigation water

The Commission received little specific information on the impact of reforms to date on prices for irrigation water. Undoubtedly, however, increases in prices have been significant in some schemes as water authorities have sought to implement cost recovery requirements. For example, Murrumbidgee Irrigation (sub. 125) indicated that it had to absorb a 260 per cent increase in the price of bulk water over the last four years. Many irrigators also indicated that high security water had become more expensive due to the uncertainty surrounding environmental allocations.

A number of participants commented in general terms on the impacts of recent and prospective price reforms. For instance:

- the Mallee Catchment Management Authority (sub. 60) said that, in Victoria, water pricing reform has already led to a significant reduction in the irrigation of pasture and, facilitated by water trading, an increase in the irrigation of high value horticultural crops; and
- the Murrumbidgee River Management Board (sub. 124) suggested that efficient pricing of bulk water delivery — necessary to contain price increases from full cost recovery of irrigation water — was achievable if bulk water were to be made contestable from the private sector.

A recent study (Samaranayaka *et. al.* 1997) examined the effects of increased water charges on agricultural activities in the Murray–Darling Basin, the Kerang–Cohuna (Victoria) district and Murrumbidgee Irrigation Area (MIA) (New South Wales). The study indicated that higher charges for irrigation water are unlikely to have uniform impacts across agricultural pursuits or regions:

- for the MIA, the study found that an increase in water charges in 1995-96 from \$13/ML to \$25/ML would not have made irrigated rice sufficiently less profitable to induce a shift to dryland cropping; and
- in contrast, it found that in the Kerang–Cohuna region — where irrigation water is used primarily for irrigated pasture (beef/sheep) — increasing water charges in 1995-96 from \$17/ML to \$27/ML would make irrigated pasture less profitable than dryland pasture.

Cost of service delivery and service quality

Institutional reforms in the urban and some rural parts of the water sector have improved the efficiency of service delivery. For instance, during its visit to the wheatbelt area of Western Australia, the Commission heard that the institutional culture has changed from one of development and service provision to cost efficiency and profit. Reduced costs of service delivery have enabled larger price reductions for some users and dampened the level of increase required for others as part of the move to more efficient and sustainable pricing structures.

More specifically, the Victorian Government (1998) indicated that institutional reforms in that State had delivered a saving of \$150 million over a five year period. (These reforms involved the disaggregation of Melbourne Water in 1994 into three metropolitan urban retail businesses, the disaggregation of the former Rural Water Corporation into four separate water businesses and the amalgamation of small water boards into 15 new water businesses.)

Moreover, the Victorian Government said that these cost savings have not been achieved at the expense of service quality. Indeed, it claimed that:

The new industry structure has increased water companies' responsiveness to customer needs, and has resulted in fewer restrictions to supply and more sensitive debtor management. (Victorian Government 1998, p. 9)

In New South Wales, however, the NSW Irrigators' Council (sub. 211) strongly criticised the apparent lack of effort by the State's monopoly bulk water supplier, the Department of Land and Water Conservation (DLWC), in pursuing efficiency-improving reforms in its service delivery. The Council, commenting on DLWC's submission to the 1998 IPART inquiry on bulk water prices, said:

Not only had there been no fundamental reform in the supply of water that would have delivered cheaper and more effective supply but the functions and costs had increased significantly. (sub. 211, p. 2)

The NSW Irrigators' Council (sub. 211, p. 2) also noted that IPART had, in an earlier report, said that 'if the Department could become more efficient then prices, under full cost recovery, would not need to rise'.

Water trading

There are few estimates of the benefits realised to date from water trading because of the early stage of development of the market.

Marsden Jacob Associates (1999, p. 3) estimated that the 863 145ML traded in New South Wales in 1997-98 increased the value of irrigated agriculture by \$65 million — \$30 million from temporary transfers and \$35 million from permanent transfers.

The Victorian Government indicated that, by the year 2000, interstate water trading will increase output in the Victorian horticulture and dairying industries by \$50 million a year. It said that:

The resulting increase in agriculture production is expected to create new jobs. Moving water to users who value it more highly also has the capacity to make new developments possible without the need to construct new dams. (Victorian Government 1998, p. 8)

Specific new enterprises made possible by water trading in Victoria include 'Boundary Bend', a vegetable farm at Robinvale in Northern Victoria, and Nangiloc vineyard, near Mildura, which purchased water rights from a citrus farm in Wentworth, New South Wales. Menindee, in New South Wales, is another area which has benefited greatly from being able to purchase water entitlements on the open market.

Similarly, the Mallee Catchment Management Authority commented that:

Since the water industry in Victoria was deregulated and water became a tradable resource, there has been more than 5000 hectares of new irrigation in the region ...

Growth in new plantings of wine grapes has been significant, with seven wineries in the Mildura district crushing a total of 290 000 tonnes per annum of grapes or 35 per cent of Australia's production. Water reform has allowed the industry to respond to higher winegrape prices. There is a similar rate of expansion in vegetable production in this region.

The new horticultural developments have brought massive investment into this region. On-farm capital investment is in the order of \$37 000 per hectare for winegrapes and \$12 000 per hectare for vegetables (excluding the cost of water and land) ... It has been estimated that the total farm-gate production value of the new developments in the Victorian Mallee is currently \$50 million per annum. (sub. 60, p. 2)

Of course, increased agricultural output in Victoria from water trading will be partially offset by reduced output in those States and regions providing the additional water to the growth areas. For instance, Murray Irrigation Limited (sub. 170) considered that the lifting of water trading restrictions will have significant negative impacts on some communities on the New South Wales side of the Murray. In terms of their incidence, it said:

The impacts will be greatest where the returns per megalitre are lowest and the opportunities for diversification are least. (sub. 170, p. 7)

Hence, the overall increase in national agricultural output will be considerably smaller than the figures reported above. That is, unless there is a significant reduction in water wastage (brought about by the reforms).

Recent estimates suggest that there *is* considerable room for reducing wastage and improving water efficiency in the irrigation sector. For instance, in the delivery phase, Thomas (AATSE & IEA 1999) found that as much as 40 per cent of all water channelled to irrigating farmers was being lost to evaporation and seepage. Along the Murray, the Cooperative Research Centre for Freshwater Ecology (*The Age* 1999, p. 7) estimated that about 15 per cent of water released from that river's dams disappeared in leaky channels before it reached the farm. This is not only unavailable for irrigation, but may also contribute to raising the level of groundwater, thus increasing salinity problems. On farms, the CRC noted that many irrigators are still using wasteful techniques such as flood and spray irrigation. The Land and Water Resources Research and Development Corporation (*The Age* 1999, p. 7) suggested that irrigators should be able to achieve from 70 to 85 per cent water use efficiency, but noted that many, especially flood irrigators, were still operating at below 50 per cent efficiency.

Under the MDBC water cap, the value of water will continue to rise. Accordingly, farmers will have an incentive to improve their water use efficiency — not only by installing more water-efficient irrigation technologies, but also by improving irrigation management and changing enterprise mix towards less water-intensive uses. Similarly, off-farm, this rising value will ensure that the replacement of open earthen channels with piped systems will become increasingly economic. These outcomes are reflected in the results of a recent study (AATSE & IEA 1999) — see box 5.4.

Box 5.4 CoAG reforms and water caps — results from modelling done in the ‘Water and the Australian Economy’ study

The *Water and the Australian Economy* study (AATSE & IEA 1999) modelled three scenarios for Australian water use from 1995-96 to 2020-21 — a ‘Trend’ scenario in which existing trends continued without any water limits; a ‘Non-adaptive’ scenario which took account of water limits but did nothing to adapt to them; and, an ‘Adaptive management’ scenario which included a range of CoAG-style water market reforms.

Under the ‘Trend’ scenario, the study found that, in the absence of any resource restraint, the irrigation industry’s demand for water could increase by as much as 66 per cent by 2020-21, pushing total water use to 33 000 gegalitres a year (compared with 20 000 gegalitres in 1995-96). This rapid increase was considered to be unsustainable and would soon outstrip available water supplies.

The second ‘Non-adaptive’ scenario indicated that water limits would stifle the potential development of the irrigation industry in Australia, cutting its potential growth by as much as a half in the Murray–Darling Basin, and two thirds off the potential incomes of intensive irrigators in the Basin’s western half.

Under the ‘Adaptive’ scenario, the study found that CoAG-style reforms to water trading, water pricing, full cost recovery, and water use efficiency would recover the economic gains lost in the second scenario, because they would allow water to be transferred to its most profitable uses and, at the same time, allow new irrigation developments to proceed. Australia’s water use was estimated to grow to 27 400 gegalitres by 2020-21, with no increase in use in the Murray–Darling Basin. Under this scenario, the study also found that:

- the Australian economy would grow at almost the same rate as in the ‘Trend’ scenario;
- the share of agriculture in the economy would remain much the same, although the regional distribution of activities would be different;
- there would be more efficient use of water in existing activities; and
- there would be a comparative shift to more intensive forms of irrigated production.

Source: AATSE & IEA (1999).

The Commission notes that both New South Wales and Queensland have recently announced specific programs to promote water use efficiency (*Riverine Grazier* 1998; *Cotton Australia* 1998). In New South Wales, the Government has allocated \$25 million (out of its \$33.4 million Water Reform Structural Adjustment Program) to fund the Irrigated Agriculture Water Use Efficiency Incentive Scheme for a five year period. This scheme is intended to help irrigators plan, adopt and monitor best irrigation practices and water efficient technologies. Similarly, the Queensland Government has allocated from \$0.5 to \$1 million annually, for an indefinite period, under its Water Use Efficiency Initiative. In New South Wales, the Government's provision of 'privatisation dowries' to address deferred maintenance in irrigation schemes, should also help in fixing up leaky channel problems.

A number of participants believed that the separation of water entitlements from land title to facilitate water trading could adversely affect some regional communities. The Association of Rural Water Authorities (ARWA) in Victoria stated:

Tradeability of water entitlements has assisted the market in directing water to higher valued enterprises and provided flexibility and benefits for people wishing to adjust their enterprise or leave the irrigation industry. However, there may be some long term issues about the resultant viability of the areas from which water is taken. (sub. 82, p. 5)

The Western Australian Water Users Coalition went further, suggesting that such adverse impacts may give rise to a case for compensation for affected communities:

Where such reforms adversely affect stakeholders or diminish existing rights then the affected parties should be paid equitable compensation. Compensation should reflect the true loss, including market value and any consequential losses such as severance, disturbance and injurious effect. (sub. 157, pp. 5–6)

In the Commission's view, negative impacts on some regional communities are unlikely to be of sufficient magnitude to warrant impeding trade in water by maintaining links between water rights and land title. As the AWRA quote indicates, the benefits of unimpeded transfer in ensuring that the best use is made of available water supplies are widely accepted. This is not to deny that the negative impacts of water transfers might be significant for some communities. Adjustment assistance issues are discussed in chapter 13.

Water quality standards

This aspect of supply was highlighted by the mid-1998 water quality problems experienced at Sydney Water Corporation. This incident demonstrated the need for appropriate contract specification and monitoring.

The National Water Quality Management Strategy is directed at improving drinking water quality in rural areas. The goal is achievement of 1987 World Health Organisation standards.

The Victorian Government (1998, p. 10) indicated that water supplied to 58 per cent of the non-metropolitan population met the bacteriological standards, up from 27 per cent in 1992-93. Full compliance is expected by 1999-2000. Further, the Victorian Government intends to spend \$1 billion to ensure that virtually all country towns in Victoria have water which meets all international standards by 2001. Similarly, the New South Wales Government has committed \$855 million to upgrade its country town water supply and sewerage treatment works.

Environmental outcomes

As noted in the introduction to this section, a major goal of the NCP water reforms is to improve the sustainability of water use in Australia. The strategies for achieving this outcome include:

- The move to consumption-based water charges, which increases the cost of water for many users encourages them to reduce their water use. Not only does this defer or obviate the need for new infrastructure to satisfy growing demand, it also reduces the environmental impacts of waste water and sewerage effluent disposal. For example, in Queensland, 10 of the 17 largest local councils have implemented two-part tariffs for town water, reducing water usage by 20 per cent in the first year.
- The specification of water for environmental flows as part of the water trading regime ensures that ecological sustainability is taken into account.

Employment impacts

There has been a significant reduction in direct employment by water authorities during the 1990s. However, the net effect on employment is difficult to determine as water authorities have outsourced many of their activities, both core and non-core. Also, many policy and regulatory functions are now performed by organisations external to the water supply industry.

In rural areas, centralisation of service provision has led to employment losses in the water industry in smaller rural communities. These have been partially offset by gains in employment in the larger regional centres. For example, the Gwydir Valley Irrigators' Association (sub. 114) indicated that some of the 50 water jobs recently lost in Moree had transferred to Tamworth. In this regard, the employment story to date in country Australia is much the same as in the electricity sector.

FINDING 5.3

NCP water reforms have resulted in significant increases in charges for many users, particularly irrigators. Notwithstanding improvements in the efficiency of service delivery, these increases are likely to continue. At the same time, the reforms are providing benefits to the environment through, for instance, greater incentives to reduce wastage, thereby leading to more efficient investment in water infrastructure. However, more progress on reforms intended to improve water property rights and their tradability is necessary in order to enhance the prospects of achieving a net increase in the value of agricultural output.

5.5 Road transport

The road transport sector is a vital part of the Australian economy. It directly employs around 193 000 people or 2.3 per cent of total employment (ABS 1998d, p. 50) and accounts for slightly more than 2 per cent of gross domestic product (GDP).

Country Australia relies heavily on road transport to bring in goods and to move goods out to users and ports. As the Chamber of Minerals and Energy of Western Australia commented:

Reduced transport costs mean that regional products effectively become cheaper in their final markets, increasing the competitiveness of the producing areas. This is an extremely important consideration in minerals commodity markets.

A less obvious impact is that lower transport costs reduce the delivered price of imports into the regions. This again enhances regional economies by boosting competitiveness but also delivers lifestyle benefits by making necessities and leisure goods cheaper. (sub. 29, p. 4)

The South Australian Government made a similar observation:

The obvious benefit to rural and regional Australia lies in the continuing reduction of the cost of transporting goods into or out of the location. Such cost savings in the transportation of goods will increase the scope for competitive pricing that regional exporters can offer buyers of agricultural and mining products. Conversely, the lower

cost of transporting goods into remote regions should (eventually) result in price reductions at the consumer level. (sub. D298, p. 16)

Residents of rural communities also depend on road transport for access to services such as health services provided by regional hospitals and face-to-face financial services. More generally, road transport serves to facilitate social interaction among people in isolated communities.

The Commonwealth, State, Territory and local governments are all involved in regulating road transport. This has led to a multiplicity of regulations across Australia which increase compliance costs for transport operators and others travelling interstate (see box 5.5). Also, charging systems, such as registration fees, bear little relationship to the costs of road damage by large vehicles and there are concerns about the safety record of some sections of the industry.

Box 5.5 Differing regulatory regimes for road transport

Submissions to the review of the National Road Transport Commission (Independent Committee 1996) outlined a range of 'grass roots' concerns relating to the lack of uniformity and/or consistency of road transport regulations, including different:

- registration paperwork;
- enforcement approaches;
- speed limits;
- provisions for mandatory signage on trucks;
- log books;
- permit requirements;
- approaches to exemptions and penalties; and
- inspection and administration fees and procedures.

Source: Independent Committee (1996, p. 43).

The road transport reforms

Concerted efforts to improve the efficiency of Australia's road transport sector on a national basis began in the early 1990s with the signing of the Heavy Vehicles Agreement and the Light Vehicles Agreement and the establishment of the National Road Transport Commission (NRTC) to develop the reform program. A Ministerial Council comprising Australian Transport Ministers was established to oversee the implementation of the reforms and the NRTC.

In October 1992, Australian Transport Ministers agreed on a national approach to reform in six key areas:

- uniform heavy vehicle charges;
- uniform arrangements for transportation by road of dangerous goods;
- vehicle operation reforms covering national vehicle standards, roadworthiness, mass and loading laws, oversize and overmass vehicles, and road rules;
- a national heavy vehicle registration scheme;
- a national driver licensing scheme; and
- a consistent and equitable approach to compliance and enforcement of road transport laws (NCC 1998b, pp. 138–9).

In 1995, under the Implementation Agreement of the NCP, governments recommitted themselves to ‘effective’ observance of the road transport reforms.

In comparison with other areas of reform, the NCP Implementation Agreement provides only very general guidance to governments on their obligations in the road transport area. In its 1996-97 Annual Report, the NCC (1997a, p. 139) noted that, following consultation with relevant agencies, it had concluded that these obligations ‘... should involve the timely development and implementation of heavy vehicle regulation’. Seemingly, the requirement to progress road use charging reforms has been delayed. In this regard, the Balanced State Development Working Group commented that:

The lack of a cost recovery strategy works to the competitive disadvantage of other modes and leads to excessive use of roads. (sub. 205, pp. 3.5–3.6)

The under-recovery of road transport costs and the competitive disadvantage this places on rail transport was also raised by the South Australian Government (sub. D298). The costing and charging of road transport relative to rail is discussed in the Commission’s draft report on *Progress in Rail Reform* (PC 1999e). In that report, the Commission recommended that the Commonwealth Government should establish an inquiry into the provision, funding and pricing of roads in Australia.

However, proposals to reduce diesel fuel excise for both road and rail transport as part of the tax reform package should reduce transport costs in the country.

Progress in implementing the reforms

Compared with the electricity and gas sectors, progress in reforming road transport regulation has been slow. However, since the early 1990s, some important changes have been made. These include:

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- the introduction of standard registration charges and processes for heavy vehicles;
 - better road access for B-doubles and road trains;
 - simplified driver licence classifications and easier conversions of interstate driver licences;
 - improved medical standards for drivers; and
 - safer load restraint practices (Independent Committee 1996, p. 23).

Much of the effort to date, however, has involved putting in place the institutional and legislative arrangements to support future reform initiatives. In terms of practical, ‘on the ground’ reform, progress has been much slower than originally envisaged.

This slippage has reflected a number of factors, including:

- delays in the passage of legislation by Parliaments;
- State and Territory government concerns with the NRTC’s reform process — such as the use of generic ‘template’ legislation; and
- State and Territory differences in the approach to individual aspects of reform (such as environment-related regulations).

In response to concerns raised by the NCC over slippage in implementing the reforms, a 19 point plan as a framework for the second tranche assessment was developed by the Standing Committee on Transport (SCOT) supported by the Australian Transport Council (ATC) of ministers in December 1998 and endorsed by CoAG in May 1999. The NCC (1999b) has undertaken an assessment of each jurisdiction’s progress in implementing the 19 point plan (as at 30 June 1999), as part of determining their eligibility for receiving the second tranche payments. While the Commonwealth is not eligible for the payments, Commonwealth reforms are integral to the national reform program. For the third tranche assessment, a further 12 reforms, if endorsed by CoAG, are intended to be added to the reform agenda (NCC 1999b).

A snapshot of jurisdictions’ progress in implementing the road transport reforms is provided in table 5.6.

With the exceptions of the registration scheme and driver licensing, reform implementation is now widespread. New South Wales and Victoria have implemented all of the 19 reforms and Western Australia, the ACT and the Northern Territory received approved exemptions in certain areas. In Western Australia and South Australia the number of reforms to be completed is relatively

large. However, all States and Territories are due to complete implementation of the 19 point plan by 2000. The NCC has not recommended payment reductions at this stage, but will undertake a supplementary assessment prior to March 2000 to determine whether payments should be made from that point (NCC 1999b).

Table 5.6 Status of jurisdictions' progress on NCP road transport reforms, as at 30 June 1999

<i>Reform</i>	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>WA</i>	<i>SA</i>	<i>Tas</i>	<i>ACT</i>	<i>NT</i>	<i>C'wealth</i>
Carriage of dangerous goods	✓	✓	✓	✓	✓	✓	^a	✓	✓
Registration scheme	✓	✓	^b	✗	✗	✗	✗	✓	✗
Driver licensing	✓	✓	✗	✗	✗	✗	✗	✗	na
Common mass and loading regulations	✓	✓	✓	✗	✗	✓	^c	✓	✗
Heavy vehicle standards	✓	✓	✗	✗	✓	✓	✓	✓	✗
Truck driving hours	✓	✓	✓	◆	✓	✓	□	◆	na
Bus driving hours	✓	✓	✓	◆	✓	✓	□	◆	na
National mass and dimension limits	✓	✓	✓	✓	✗	✓	✓	✓	✓
One driver/ one licence	✓	✓	✓	✗	✓	✓	✗	✓	na
Improved network access	✓	✓	✓	✓	✓	✓	✓	✓	✓
Common pre-registration standards	✓	✓	✓	✓	✓	✓	✓	✓	na
Common roadworthiness standards	✓	✓	✓	✓	✓	✓	✓	✓	na
Safe carriage and restraint of loads	✓	✓	✓	✗	✗	✓	✓	✓	✓
National bus driving hours	✓	✓	✓	◆	✓	✓	□	◆	na
Interstate conversion of driver licences	✓	✓	✗	✗	✓	✓	✓	✓	na
Alternative compliance systems	✓	✓	✓	✓	✓	✓	✓	✓	✓
Option of 3 and 6 month licences	✓	✓	✓	✓	✓	✓	✓	✓	✓
Driver offences and licence status	✓	✓	✓	✓	✓	✓	✓	^d	na
Links to databases to exchange driver and vehicle information	✓	✓	✓	✓	✓	✓	✓	✓	na

Note: The summary in the table is only a broad indication of progress. It does not purport to provide a complete picture of the details of reform implementation contained in the NCC's second tranche assessment.

✓ completed ✗ incomplete ◆ exemption (uses comparable code) □ 'de-facto' delivery of reform

^a Legislation has been implemented, but requires amendment to Commonwealth legislation. It is being implemented in practice using emergency orders. ^b Effectively in place, but legislation amendment is not due until September 1999. ^c Mostly implemented. ^d Effective, with privacy guidelines due July 1999.

na not applicable

Sources: PC evaluation based on information contained in NCC (1999b); discussions with the NRTC; and submissions.

While progress in implementing the NCP reforms has been slow until recently, ongoing reforms in other areas, such as in petrol pricing and efforts to improve investment appraisal requirements for new road expenditure, are also influencing the competitiveness of the road transport sector.

Economic and social impacts

Given the slow progress in road transport reform, it is not surprising that evidence of the economic and social impacts of NCP-related policy changes in this area is generally lacking. Most of the limited commentary in discussions and submissions related to lack of progress and implementation difficulties. For example:

- a tourist coach operator in Nowra said that he was still unable to obtain a licence to pick up passengers in Victoria when on-route from Nowra to Melbourne;
- a funeral director said that there were additional costs of transporting bodies across State borders, due to the lack of mutual recognition of relevant legislation between New South Wales and Queensland; and
- some participants, including the Mackay, Hinterland & Whitsunday Combined Local Authorities Association (sub. 173), argued that, without adequate investment in road infrastructure, the benefits of road transport reform will be diminished.

However, a few participants provided specific examples of benefits and costs apparent to date. For instance:

- during discussions with Capricorn Tourism in Rockhampton, the Commission heard that NCP has reduced administrative and compliance costs for interstate coach operators;
- the Department of Transport and Regional Services (sub. 207, p. 22) said that information emerging from its regional case studies undertaken for this inquiry indicates that one high volume customer has seen a 30 per cent fall in road freight charges, spread over a number of years, despite his location 'at the end of the transport route'; and
- the Local Government and Shires Association of New South Wales (sub. 197) alluded to the adverse impact of increased mass limits for heavy vehicles on the roads and bridges network. It indicated that, while increased mass limits may assist rural Australia through the more efficient transportation of produce from the farm gate, local government in New South Wales is of the view that 'higher limits must be accompanied by higher charges'.

In respect of road transport costs, the Tamworth City Council said:

... but certainly road transport, the costs have continued to come down, particularly with bigger operators with B-doubles and the like of that. (trans., p. 122)

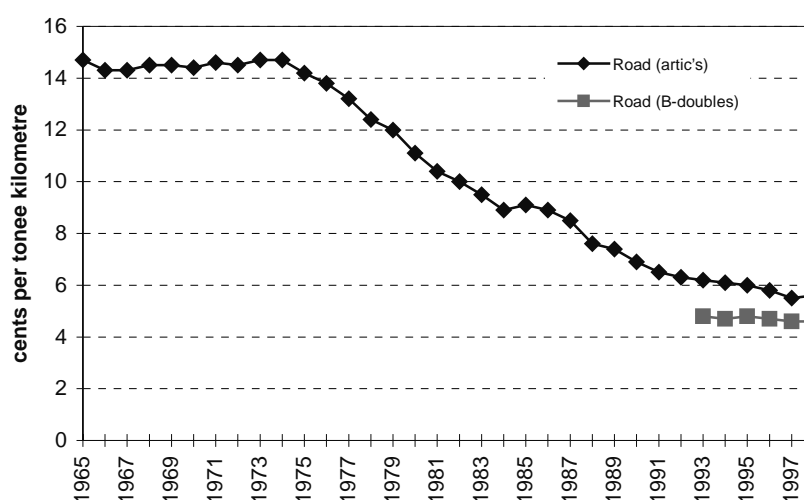
The Northern Territory Government said:

The reforms have increased the productivity of road transport, allowing lower per unit transport costs for rural and remote areas. The reforms may also strengthen the viability of rural and remote operators as these are likely to be able to make more intensive use for the higher payloads allowable than their city based competitors. (sub. D303, p. 3)

While limited information is available on changes in freight rates over time on routes between rural centres and between metropolitan and rural centres, information provided by the Bureau of Transport Economics indicates a continuing reduction in the real costs of road transport on the Melbourne to Sydney route during the 1990s (see figure 5.13).

Furthermore, the Independent Committee (1996, pp. 49–53) said that more consistent regulations have improved the opportunities for businesses to operate across State borders, and that more consistent and reliable enforcement has led to a more level ‘playing field’ for all transport operators.

Figure 5.13 Real freight rates — Melbourne to Sydney, 1964 to 1998
(1997-98 prices)



Melbourne-Sydney freight rates (average both ways. 1997-98 = 100).

Source: Data supplied by Bureau of Transport Economics.

The South Australian Government (sub. D298) commented that uniform road transport regulation such as the setting of upper mass limits was detrimental to South Australia. It said:

... the setting of upper mass limits should be done in relation to the design and condition of the roads and bridges and the nature of the traffic on the route in question. If some South Australian roads can appropriately accept higher mass limits, with the productivity benefit this implies, then artificially imposed uniform mass limits are inappropriate. (sub. D298, p. 6)

It is the case that the benefits of uniformity are not without costs for individual jurisdictions in terms of benefits forgone in some areas of the reform program. However, for the nation as a whole, such costs must be weighed against the added costs of disparate upper mass limits under a more flexible approach. As the issue of national uniformity versus jurisdictional flexibility is likely to arise in other areas of the NCP reforms (eg water reforms), an appropriate forum to review this issue is the CoAG review of the operation and terms of the NCP which, under the Competition Principles Agreement, is to be undertaken in 2000.

While a significant body of evidence on impacts has yet to emerge, the *potential* effects of road transport reform have been considered at length. The NRTC expects road transport reform to benefit the community in several ways, including:

- transport cost savings, leading to lower consumer prices;
- improvements in the competitiveness of industries and, thus, a boost to their production and employment prospects;
- improved road safety; and
- more efficient bus transport leading to greater use of public transport and thereby to lower congestion and pollution, as well as to fewer pollution-related health problems. (NRTC 1998, pp. 1–2)

In 1996, the NRTC commissioned a study (Smith et al. 1996) in order to quantify some of these impacts. The study estimated that full implementation of the road transport reforms relating to standards and the operation of heavy vehicles would increase GDP by more than \$1.2 billion a year, with around two-thirds of this gain arising from the Mass Limits Review proposals. The study projected that around \$500 million would accrue as a direct benefit to road transport operators — mainly through reduced operating costs — with the remainder reflecting the flow-on cost savings to business and consumers. It did not systematically address the likely distribution of the gains across urban and regional Australia, but pointed to variations in outcomes across Australia. For example, the NRTC study concluded that:

The distribution of this [direct] benefit is likely to be very uneven across operators, with the probability that many will make no gain and some will face losses. (Smith et al 1996, p. 45)

To assess the impacts of increased mass limits on government revenue, the NRTC and Commonwealth Department of Transport in 1998 commissioned a study by the National Institute of Employment and Industry Research (NIEIR 1998). The study indicated that the Commonwealth Government would gain significant revenue from an increase in mass limits. The States and Territories would not experience a significant increase in revenue as the revenue sources available to the States and Territories were less directly growth-related than those of the Commonwealth and smaller in absolute scale. The analysis indicated that there would be increased economic activity throughout Australia and projected the prospective consumption gains to be around \$3 billion in present value terms, which was far in excess of the projected cost of upgrading roads and bridges to carry the increased mass limits.

The Commonwealth has allocated funds to assist the States and Territories in the upgrading of roads and bridges for mass limits above the current limits of 42.5 tonnes. However, the cost of upgrading roads and bridges and the level of Commonwealth funding available for this work has caused delays in implementing mass limits in some jurisdictions. By August 1999, increased mass limits, albeit on limited networks in some cases, were implemented in all jurisdictions, except for New South Wales and the ACT. In New South Wales, the increased mass limits were restricted to vehicles registered under the Federal Interstate Registration Scheme to parts of the national highway network.

To increase mass limits, the New South Wales Government is calling on the Commonwealth Government to provide additional funding from the increased revenue available to it from the changes in mass limits to assist in upgrading roads and bridges in New South Wales (Minister for Roads and Minister for Transport Wales (New South Wales) 1999). The ACT Government is also seeking further funding from the Commonwealth in order to upgrade bridges within the ACT in a timely manner before it increases the mass limits.

In short, there is little substantial evidence on the impacts of NCP-related road reforms due to the slow progress in implementing these reforms. The introduction of the 19 point plan as a framework for the second tranche assessment is a positive indication that steps are being taken to progress the reforms, which offer substantial gains in the form of lower costs.

FINDING 5.4

The modest progress in road transport reform has meant that the projected benefits have yet to be fully realised in both country and city areas. Nonetheless, country areas have derived some benefit to date from the reductions in regulatory overlaps and inconsistencies between jurisdictions. Also, better road access for newer technology, such as B-doubles, and increased competition have seen productivity increase and freight rates fall.

5.6 Conclusion

Collectively, the NCP reforms in electricity, gas, water and road transport represent a major change to the provision of infrastructure services in Australia. If implemented comprehensively and effectively, they offer the prospect of significant gains for Australia as a whole (see chapter 10).

The reforms in the four sectors have many common elements. Therefore, despite the variable rate of progress in implementation, it is not surprising that outcomes to date have a number of similarities. For example, there have been significant changes in the institutional and/or regulatory frameworks in all four sectors. In electricity and gas, for instance, there have been reductions in the costs of service delivery, reflecting rationalisation of service provision and various initiatives to improve productivity, which have generally led to price reductions. As part of the efforts to reduce costs, there has been a reduction in direct employment in each of these sectors.

However, given differences in the nature of the sectors and in the emphasis of the reforms which apply to them, there have also been important differences in key impacts:

- in the *electricity* sector, the primary benefit for Australia as a whole, has been a significant reduction in average usage charges, most of which to date has accrued in a direct sense to commercial rather than domestic users;
- while there have also been price reductions in the *gas* sector, the major benefit has been the acceleration in the extension of the pipeline network into rural Australia and across State borders;
- in the *road transport* sector, progress has been modest, with much of the emphasis on establishing the legislative and regulatory framework necessary to implement the reform agenda. Despite this, increased competition and the

introduction of new technology have seen road haulage prices fall and productivity increase; and

- in the *water* sector, the thrust of the reforms has been on establishing a market environment which will discourage over-exploitation and the misuse of scarce water resources, and lead to more efficient investment in water infrastructure. This has sometimes required significant increases in prices for some water users, in contrast to the price reductions which the NCP reforms have delivered to many energy users.

In terms of the impacts on country Australia, the story is mixed:

- reform in the *gas* sector has been an almost universally good story for rural and regional areas, with the greatly improved access to gas supply and significant price reductions for larger business users. Apart from the stimulus to employment in the construction and maintenance of the expanded network, improved access to competitively priced gas is encouraging the development of new regional activities;
- larger users of *electricity* in regional Australia have enjoyed significant reductions in usage charges. Because of the scheduled progressive lowering of thresholds for ‘contestable’ markets, such direct price benefits have not been so widely apparent as yet for households and smaller businesses. Indeed, commercial incentives to recoup a higher proportion of system costs from small users and increased connection charges in some country areas, are putting upward pressure on prices. Overall employment in the sector has fallen. Losses in the distribution sector have been concentrated in smaller regional centres;
- the modest progress in *road transport* reform has meant that the projected benefits have yet to be fully realised in both country and city areas. Nonetheless, country areas have derived some advantage to date from the reductions in regulatory overlaps and inconsistencies between jurisdictions, as well as from better road access for B-doubles, roadtrains and the like; and
- in the *water* sector, increased opportunities to trade water has contributed to a net increase in the value of agricultural output. However, the move to implement cost reflective and ecologically sustainable pricing regimes has already led to significant increases in charges for many users, particularly irrigators. At the same time, these increases are also providing benefits to the environment through, for instance, greater incentives to reduce wastage and, thereby, the need for investments in new dams. Notwithstanding improvements in the efficiency of service delivery, continued implementation of the NCP is likely to see further significant price increases in the future.

The prices paid by users in country Australia for many infrastructure services have been influenced by government decisions about the maintenance of CSOs. For instance, in many regions, electricity prices below the costs of supply, typically for domestic use, have been maintained as explicit ‘tariff equalisation’ CSOs by governments. The provision of water services outside metropolitan areas at less than full cost is also an important feature of water prices in country Australia, particularly in South Australia and Western Australia.

In terms of the future reform agenda, in the *water* and *road transport* sectors, the key requirement is to push ahead with changes to those areas where only limited progress against agreed targets has been made. In the water sector in particular, moving the reform process forward is likely to require greater efforts to publicise the requirements of the NCP and the benefits they will deliver for many rural areas, the environment and Australia as a whole.

In the *electricity* sector, the key reform task will be to consolidate the development of the NEM. Apart from ensuring the connection of Queensland and Tasmania to the national grid, there is also the effective implementation of retail competition under the NEM, where smaller users will progressively have the ability to choose suppliers. The latter is likely to be of particular benefit to country areas. There is also a need to push ahead with structural and institutional reforms, particularly in Western Australia, which will not be a participant in the NEM.

Finally, in the *gas* sector, the key task is to continue to encourage and facilitate the extension of the pipeline network into regional Australia. Looking for ways to increase competition between producers, streamlining the access regime and ongoing pricing reforms will also be important.

6 Reform of public monopolies

Public enterprises which were, or still are, monopolies — such as rail and port businesses, Telstra and Australia Post — have also undergone reform. While many of the reforms began before the National Competition Policy (NCP) agreements were signed, the reforms since then have been guided by the Competition Principles Agreement (CPA) of the NCP. While there have been some adverse effects in certain locations, the reforms have resulted in gains across the community, including country Australia.

6.1 Introduction

Government monopolies other than those engaged in the provision of electricity, gas and water (discussed in the previous chapter) are not covered specifically under the Council of Australian Governments (CoAG) agreements on infrastructure services. However, if governments choose to expose their other public monopolies to competition or privatise them, under the CPA, they have agreed to follow some broad reform principles (see chapter 4). This chapter considers reforms to government rail and port businesses, Telstra and Australia Post.

NCP and the reform of public monopolies

NCP did not initiate structural reform of government monopolies. These reforms were well advanced before NCP commenced. The CPA does not *require* governments to introduce competition or privatise their monopolies, although many of them are now subject to competition. However, if governments decide to introduce competition or privatise a public monopoly prior to undertaking such action, they agreed to separate regulatory and commercial functions to prevent a public monopoly from enjoying any regulatory advantage over existing or potential competitors.

As noted in chapter 4, the Commonwealth, States and Territories also agreed that they would review the commercial objectives, the effective implementation of competitive neutrality, industry regulation, the financial relationship with the government owner of the business and allow access by other businesses to significant infrastructure in public ownership. Importantly, the jurisdictions also

agreed to assess the merits of any community service obligations (CSOs) provided by the public monopoly and the most effective method for their delivery. Reform of public monopolies does not mean, however, that governments are unable to maintain CSOs to pursue social, environmental or welfare goals (see chapter 12).

6.2 Progress with the reform of government monopolies

This section discusses the effects of reform of the Commonwealth and State government GBEs which are subject to the principles outlined above.

State and Territory reforms

Rail

Government owned enterprises operate 85 per cent of Australia's 40 000 kilometres of rail track (PC 1998e). The importance of railways to country Australia is reflected by the fact that rail transports around 40 per cent of Australia's agriculture and livestock production, 64 per cent of mineral production and 14 per cent of fertiliser, cement and timber production (PC 1999e).

Governments began reforming their railway departments and associated businesses in the early 1980s to improve service and lower costs. This involved commercialisation, improved management, technological improvements and reductions in staff. Further reforms at a national level, to address broader issues such as separate operating systems, different track gauges, communication systems and operating standards began during the 1990s.

In accordance with the national access regime provisions of the NCP (see chapter 4), the National Competition Council (NCC) to date has received eight applications seeking access declarations for rail infrastructure. These include applications by:

- Specialised Container Transport for access to rail services provided by the New South Wales rail network and by the Western Australian rail network; and
- the New South Wales Minerals Council for access to rail services provided by the New South Wales rail services in the Hunter Valley.

In addition, New South Wales, Queensland, South Australia, Northern Territory and Western Australia have requested the NCC to consider the effectiveness of their regimes, including whether they can be 'certified' as effective under the national

regime. All these applications, other than Queensland's, are still under consideration. Queensland withdrew its application in February 1999 and subsequently applied to the Queensland Competition Authority to have it deemed effective.

Realising the need to improve interstate rail freight services — not just intrastate services — the State and Commonwealth Ministers of Transport confirmed the need for a national approach to rail reform in late 1997 and agreed to work towards achieving specific goals within a given timeframe (NCC 1998a). They agreed to implement a package of reforms to the track connecting the State capitals and their ports, as well as to the track connecting the major regional ports of Whyalla, Port Kembla, Newcastle and Westernport. An important outcome of the Ministers' agreements is the establishment of a corporation to act as a 'one-stop shop' for national rail operators seeking access to interstate track and other infrastructure facilities.

In spite of the often slow progress and diffuse nature of the process, rail reforms at Commonwealth and State levels have produced some significant gains in productivity, cost savings and service quality. Over the period 1989-90 to 1996-97, annual average labour productivity growth in Australian rail freight was 13 per cent, while wagon productivity increased at a rate of 9 per cent and locomotive productivity at 7 per cent per year over the same period (PC 1999e). Costs per net kilometre of transporting freight by rail have declined by 25 per cent over the past ten years (Australasian Railway Association 1998). Despite the somewhat limited progress in implementing access regimes, the competition already generated — coupled with the threat of future competition — has provided rail customers with lower freight rates and improved service quality. For example, following the introduction of competition on the Melbourne to Perth route, rail freight rates declined by 40 per cent (NCC 1998a). National real freight prices declined by 16 per cent between 1991-92 and 1996-97 (PC 1998e).

However, as highlighted in the Commission's recent draft report on *Progress in Rail Reform* (PC 1999e), there is substantial scope for further gains. The report identified an increased commercial focus through the franchising and privatisation of services as the key to further productivity gains and to facilitate the investment required to consolidate rail's position in the transport market.

Rail reforms will (and already are) benefiting the cities, but the biggest beneficiaries are likely to be in country Australia where rail transport is used significantly, especially for the transport of commodities. For example, 70 per cent of grain production and 80 per cent of coal production is transported by rail. Consequently,

reductions in rail freight rates assist in increasing the competitiveness of commodity producers.

Reductions in rail freight rates will also provide indirect benefits to producers and consumers in country Australia. For instance, the lower rail freight rates can, in turn, reduce the cost of inputs to those industries indirectly supplying producers in country Australia (eg suppliers of agricultural machinery). Furthermore, lower rail freight rates place pressure on the road transport sector to improve performance.

These price benefits reflect impressive achievements at the enterprise level. For example, a recent national benchmarking study of National Rail by Ernst and Young indicates improvement in productivity, fuel consumption, locomotive utilisation, wagon maintenance costs and costs in net ton per kilometre, yielding an overall reduction of 42 per cent in average costs since 1989-90. Similarly, efficiency improvements by Tasrail, which was privatised by the Commonwealth Government in late 1997, have enabled it to make a profit (of \$1.2 million) for the first time in 127 years, while expanding its services.

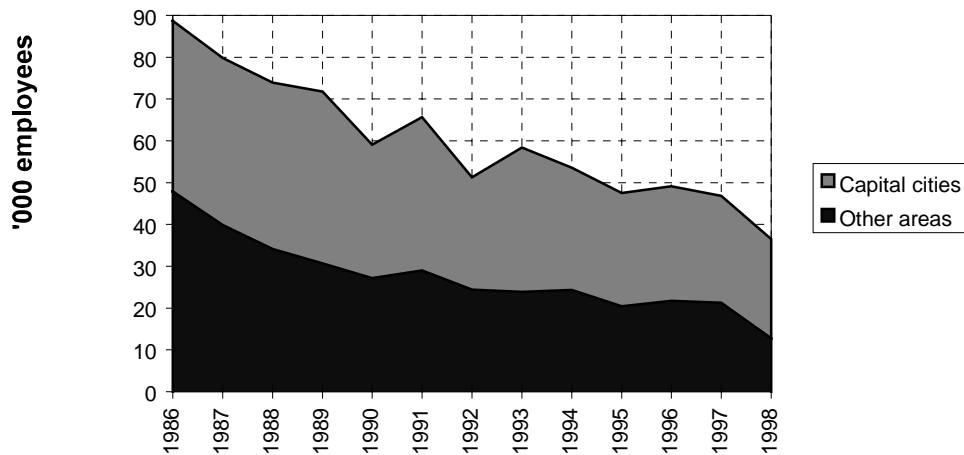
Although there is some recognition of these price benefits to country Australia, rail reforms have also had adverse impacts, particularly the loss of railway employment in country Australia. In part, this reflected the acknowledged need to reduce over-manning in the industry, a process which commenced prior to the implementation of the NCP reforms.

Restructuring and rationalisation of rail enterprises has resulted in railway employment declining more rapidly in country Australia than in capital cities. In 1986, more than half (49 000) of Australia's full-time railway employees were located outside Australia's capital cities, but by 1998 this proportion had declined to around one-third. Over the same period, full-time railway employment in capital cities declined from nearly 41 000 to around 23 000 (see figure 6.1).

This decline has had a negative impact on some rural and regional communities where there was a concentration of rail employees. For example:

- the Commission was told during its consultations in country Australia that the closure of the railway workshops in Port Augusta had created major employment problems for the community;
- in Rockhampton, the Commission was told that around 2000 local rail jobs had been lost; and

Figure 6.1 **Full-time employment in the rail industry, capital cities and other areas, 1986 to 1998**



Source: Unpublished ABS Labour Force Survey data.

- the Shire of Jeramungup (sub. 1) in Western Australia said that many rural towns have suffered losses of population due the withdrawal of local railway staff or their relocation to regional centres.

FINDING 6.1

Rail reforms have produced significant benefits for the economy in general and particularly for users in country Australia. This has involved job losses. Full-time employment in the rail industry has declined more rapidly in country Australia than in the capital cities, with adverse effects on certain rural communities.

Ports

The management of ports in Australia has traditionally been undertaken by State government authorities. The reform process has involved corporatisation, separation of the regulatory elements from the commercial elements, the provision of dividends and tax equivalent regimes and the contracting of some functions.

Port authorities in New South Wales, Victoria, Queensland, Western Australia South Australia and Tasmania have been corporatised. This has involved the creation of a statutory corporation with a commercial focus. The Darwin Port Authority has been partially corporatised and several ports in Victoria have been privatised.

Most port authorities have moved to a 'landlord model' where the authority is involved in the provision of core activities only and the more contestable elements such as pilotage, dredging and stevedoring are provided by private contractors.

Benefits of the reform process are already evident. Port authority charges declined by more than 23 per cent in the five year period to 1996-97 (PC 1998e). These reductions in port authority charges represent a significant saving to port users. For example, port authority charges for a bulk (wheat) ship accounted for 49 per cent of combined port charges at the port of Geelong and 75 per cent at the port of Adelaide (PC 1998c). Reductions in these charges are of significant benefit to country Australia, given the high level of export orientation in Australian agriculture.

Employment in ports has been declining since 1988-89. In the three year period to 1991-92, employment declined by 40 per cent from around 6000 to just over 3500. Between 1991-92 and 1996-97, employment fell to 1677, a reduction of just over 50 per cent. Employment has fallen in all jurisdictions except in Queensland, with most of the decline occurring through voluntary redundancies as non-core activities have been transferred to the private sector (PC 1998e). However, to the extent that these jobs may have been absorbed by private firms undertaking the work contracted out by the port authorities, the employment losses cited above are overstated.

Given the significance of mining and agricultural exports, the reforms to port authorities and the subsequent decline in the charges levied by these authorities are of considerable benefit to country Australia.

Commonwealth reforms

Telstra

Major structural reforms in telecommunications commenced prior to the NCP. These included the corporatisation of Telecom and the introduction of limited competition.

Telecom (now Telstra) was corporatised in 1989 and an independent regulatory body, AUSTEL, was established to regulate telecommunications. Telecom maintained a monopoly over all telephone services in Australia until limited competition was introduced in 1991 with Telecom/Telstra competing with Optus in the fixed services market and with Vodafone in the mobile telecommunications market. The limit on carrier licences has been lifted.

The regulatory control over competition in telecommunications is the responsibility of the ACCC, with the Australian Communications Authority (ACA) administering technical matters and CSOs. An industry-specific access regime has been developed to promote competition in telecommunications.

Telstra is the carrier designated by the Minister for Communications to provide the universal service obligation (USO). As the USO provider under the *Telecommunications Act 1997*, Telstra is required to provide a standard telephone service, payphones, digital data service and prescribed carriage services to all people in Australia on an equitable basis, wherever they reside or carry on business. A standard telephone service includes access to untimed local calls, emergency calls, directory assistance and operator services. The standard telephone service should also be available for voice telephony, equivalent services for users with disabilities and new services as prescribed by the Minister (PC 1998e; Telstra, sub. 110).

The USO is funded by an industry levy, with each carrier competing in the telecommunications market required to cover the loss made by the USO provider (Telstra) in supplying these services. In 1996-97, Telstra funded around 90 per cent of the total cost of the USO — it receives no budgetary funding and relies on cross-subsidies by consumers to fund the USO. The current cost of providing the USO has been ‘capped’ at \$252 million by the Commonwealth Government.

The Commonwealth Government has parliamentary approval to sell a further 16.6 per cent of Telstra and is seeking to sell the remaining 50.1 per cent, provided that an independent review certifies that Telstra’s standard of service meets prescribed criteria (NCC 1998a; PC 1998e).

Concerns relating to Telstra services and its operations in country Australia were raised constantly with the Commission during this inquiry. The introduction of competition into telecommunications and the partial privatisation of Telstra were seen by many as benefiting urban areas, but of little benefit to country Australia. For example, the Murray Regional Development Board and Riverina Development Board said:

Deregulation of the telecommunications industry and the partial privatisation of Telstra has provided impetus for significant changes. By design this has led to an increased level of competition in service provision in major populated areas such as the capital and provincial cities, but has led to little or no change in rural and remote areas. (sub. 109, p. 9)

Such views imply that the bulk of the benefits have flowed to larger urban centres at no cost to country Australia. However, others considered that competition has had a negative impact. For example, some argued that country Australia faces:

-
- slower response times in responding to faults and longer delays in connecting to new services as a result of the rationalisation of depots;
 - employment losses from the closure or reduced size of Telstra depots; and
 - a lesser commitment to the provision of adequate services, particularly mobile phone coverage and Internet access.

Telecommunications costs and service quality

Telephone charges have declined since the introduction of competition in telecommunications. The real price of STD calls has declined on average by 25 per cent over the past five years. International calls fell in real terms by 30 per cent over the same period. Overall, Telstra's retail telephone call prices fell, on average, by 30 per cent between 1991-92 and 1996-97 (PC 1998e; Telstra, sub. 137). In addition, the introduction of arrangements to allow other carriers to gain access to Telstra's local loop will help to reduce local call prices.

Falling telephone prices are not unique to Australia, they are common to most countries as new and improved technology is introduced. However, in Australia the reduction in prices has been greatest in those areas (eg international and STD calls) where there has been greatest competition.

While all consumers have benefited from the decline in prices, the fall in the price of long distance calls is of particular benefit to country Australia as a means of lessening the 'tyranny of distance'. Furthermore, there have been initiatives to provide country Australia with access to cheaper phone calls. For example, the use of local call areas provides untimed local calls to all customers within an extended area. Remote area customers who do not have access to a local call zone in rural or remote locations receive a \$160 a year rebate on their pastoral call expenditure. In addition, community call rates are provided to rural and remote locations to provide concessionary STD rates to the nearest community service town (Telstra, sub. 137). In the same vein, the establishment of extended charging zones under the countrywide calling scheme provides calls to all customers within the zone at the concessionary pastoral call rate. However, the Commission was told that the arbitrary nature of the boundaries for local call zones had created situations where some customers were paying STD rates to make a call to a telephone service that was actually in sight.

Many participants felt that the decline in prices was mirrored by a similar decline in service standards, particularly in country Australia. Tumut Shire Council said:

It is undeniable that telephone charges have reduced across Australia as a result of competition. Unfortunately, the full benefits of competition are not available to rural

areas, as Telstra remains the only telephone provider in most of these areas. This coupled with the severe reduction in service standards which resulted from substantial staff reductions and woefully inadequate community service obligations means that rural Australia is enjoying cheaper communications at the cost of poor service and low service standards. (sub. 43, p. 4)

One example of poor service cited was Telstra's slow response to rectifying faults. For example, Canegrowers said:

Most sugar cane growing areas are close to major regional centres however there are frequent occurrences of cane growers being without telecommunications services for a week or longer. (sub. 46, p. 16)

The Country Women's Association of New South Wales said:

The phone might work for a few days a week or whatever. The next minute it's out again for another 10 or 12 days and it's just promises, promises, promises and nothing happens. (trans., p. 191)

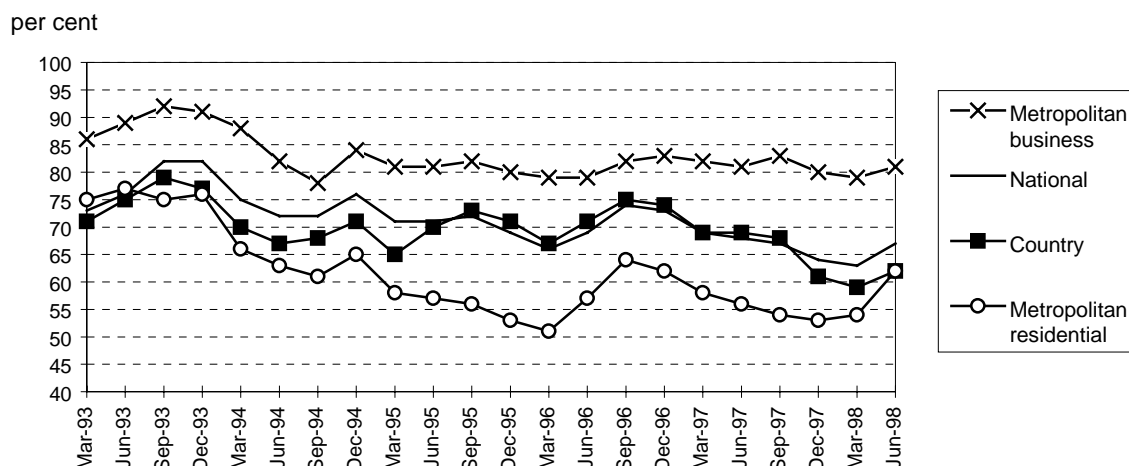
This slow response to repairing services (and connecting new services) was commonly attributed to staff reductions. Cabonne Council said:

Telstra has dramatically reduced staff right across Australia, with particular negative impacts in rural areas where there are less staff to carry out the functions that were previously attended to. Council cites the example of its Director of Engineering and Technical Services Officer who had to wait some 50 days to get the telephone connected. Clearly in this instance the lack of staff impacted upon service delivery. (sub. 56, p. 7)

The PC (1998e) reported that service quality over the period 1991-92 to 1996-97 was mixed, with improvements in some indicators and a deterioration in others. Information collected by AUSTEL (the predecessor of the ACA) and the ACA supported this finding. For example:

- the proportion of operator calls answered (eg directory assistance, international operator and service difficulties and faults) improved and service quality in payphones was fairly constant between 1991-92 and 1996-97;
- the proportion of country customers connected to new services on or before the customer required date improved from 65 to 79 per cent between 1991-92 and 1996-97, but for metropolitan residential customers the proportion declined from 91 to 89 per cent and for metropolitan business customers from 83 to 74 per cent; and
- Telstra customers experienced an absolute decline in fault repair service between March 1993 and June 1998. Country customers experienced a better fault repair than metropolitan residential customers, but not as good as that provided to metropolitan business customers (see figure 6.2).

Figure 6.2 Faults repaired by Telstra within one working day, March 1993 to June 1998



Sources: ACA (various); AUSTEL (various); *Quality of Service Bulletin, Telecommunications Performance Monitoring Bulletin*.

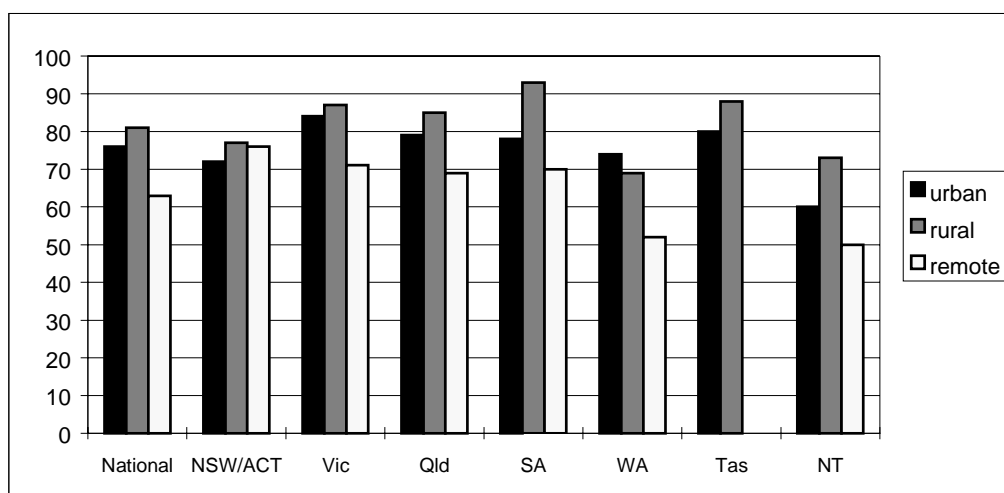
Since March 1993, Telstra has introduced a number of changes which have had implications for fault repair indicators. For example, the introduction of ‘a customer participation’ system in June 1996 enabled consumers to exchange faulty equipment at nominated Telstra depots and Australia Post outlets. Consequently, the time taken to clear the fault sometimes depended on the customer (AUSTEL 1996). Telstra also cited adverse weather conditions, such as the effect of storms, and an increasing demand for new service connections requiring the allocation of staff from fault repair duties to service connection as factors contributing to a declining standard of fault repairs (PC 1999b). Furthermore, according to Telstra, the progressive reduction in timeframes for service has led to its performance being measured against a constantly rising standard (sub. D278).

Minimum standards for fault repair based on urban, rural and remote areas were introduced in January 1998 as part of the customer service guarantee (CSG). During 1998, the proportion of faults repaired within the minimum service standard times was higher in rural areas than it was in urban areas. However, the corresponding proportion of faults rectified in remote areas was below that in urban and rural areas (see figure 6.3).

Fault repair data covering the March quarter 1999 show that in urban areas 69 per cent of faults were restored within the minimum time frame. The corresponding figure in rural areas was 70 per cent and 63 per cent in remote areas (ACA 1999). This represented an improvement for both urban and remote areas, but a decline in the level of fault repair service for rural areas compared with the standard of fault repair service in the March quarter 1998.

Figure 6.3 **Telstra fault repair performance, 1 January to 31 December 1998**

Per cent of service standard



Minimum service standards for geographic areas: *Urban* (areas with population greater than 10 000); fault must be repaired by the end of the next working day after the fault is reported. *Rural* (areas other than urban and remote areas); fault must be repaired by the end of the second working day after the fault is reported. *Remote* (areas with less than 200 people); fault must be repaired by the end of the third working day after the fault is reported.

Source: ACA (1998).

Interpreting these service quality indicators requires some caution. They do not cover the full range of quality issues such as billing accuracy or voice quality. Also, connection times for new services are likely to increase as the network expands into more remote areas. In addition, the minimum service standards specify different periods in which faults are to be repaired in urban, rural and remote areas.

In summary, the available information suggests that:

- prices in real terms declined for both country customers and metropolitan customers;
- service standards in connecting new services to country customers improved over the period from 1991-92 to 1996-97, but declined for metropolitan business and residential customers;
- there was an absolute decline in Telstra's fault repair performance between 1993 and 1998. Over this period, country customers fared better than metropolitan residential customers, but not as well as metropolitan business customers in having faults repaired within one working day; and
- based on the minimum service standards introduced in January 1998 for specific geographic areas, the proportion of faults repaired in remote areas within the minimum service standards was well below that for rural and metropolitan areas.

The introduction of the CSG standard in January 1998 required all carriers to compensate customers when they fail to meet minimum service levels (see box 6.1). The penalties under the CSG were increased in August 1998. Since the introduction of the CSG, Telstra has paid out \$3.6 million to more than 52 000 customers (ACA 1998). However, at present, the ACA does not have information on the CSG payments specific to metropolitan, rural or remote areas.

The South West Development Commission welcomed the use of financial penalties as an incentive for carriers to improve service standards to rural and regional Australia:

The Federal Government's general requirement of all phone carriers to improve the telephone service needs of regional and rural customers, with a proposed hefty fine if a company does not comply with directions of the Australian Communications Authority, is also a welcome initiative. (sub. 31, p. 5)

However, minimum service levels need to be achievable. Otherwise, service providers may opt to withdraw from providing services or not enter the market to provide certain services for fear of facing financial penalties. Telstra said:

... the progressive ratcheting up of service performance standards and increasing the penalties for performance breaches acts as a disincentive for competitive entry into higher cost markets such as rural and regional telecommunications markets, because it directly adds to the costs of doing business. (sub. D278, p. 6)

As the CSG applies only to basic services (ie fixed line services not connected to customer switching services eg PABX), it is unlikely that new competitors would be willing to compete with the USO provider in rural and regional markets to provide basic services at a loss. As a result, raising the CSG would most likely add to Telstra's costs, rather than those of the other carriers, as it is the major provider of basic telephone services through its role as the USO provider.

Through the ACA, the Commonwealth Government has scope to set minimum service levels and use fines or compensation to influence directly the standards of service provided to country Australia. In doing so, it needs to have regard to the additional costs likely to be placed on the USO provider. The impact of the USO on competition is discussed below.

FINDING 6.2

Competition in telecommunications has seen prices fall for both country and metropolitan customers. However, service quality outcomes in all areas have been mixed.

Box 6.1 **Standard of telecommunication services**

The *standard of service* that is to be provided to consumers for installation and repair of telephone services is covered by the customer service guarantee (CSG). The *level of service* that is to be accessible to all Australians irrespective of location, such as standard telephone services and payphones, is set out in the USO. Telstra is the designated provider of the USO.

The CSG standards apply not only to Telstra, but to all carriers. Furthermore, the CSG is limited to fixed line standard telephone services and is aimed specifically at residential and small business customers. Services connected to customer switching systems (eg PABX) are not covered by the CSG.

The CSG sets out minimum service standards for installations, repairs and the appointments required to carry out these services.

Installations

Where there is an intact and in-place connection, services are to be provided within 3 days of application.

Where there is available network infrastructure:

- community of 10 000 people — within five working days of application;
- community of between 2500 and 10 000 — within 10 working days of application; and
- community of fewer than 2500 people — within 40 working days of application.

Where there is no available network infrastructure:

- community of more than 2500 people — within one month of application;
- community of between 200 and 2500 people — within six months of application; and
- community of fewer than 200 people — within 12 months of application.

Repairs

Faults are to be repaired:

- in metropolitan areas within one working day (population greater than 10 000 people);
- in rural areas within two working days (population between 200 and 10 000 people); and
- in remote areas within three working days (population fewer than 200 people).

Appointments

Carriers are required to keep agreed appointment times with customers and provide at least one working day's notice of any change. Carriers are to pay compensation when a customer lodges a valid complaint relating to a carrier failing to meet the CSG standards.

Source: ACA (1998).

Employment

The loss of Telstra staff was seen by many participants as not only affecting service standards, but as also having economic and social impacts on the local community. For example, Circular Head Council said:

The Telstra reforms have resulted in considerable reduction of staff employed in the Circular Head area. Council notes that this reduced employment is contributing to a substantial loss of social capital. Maintenance standards are also falling, evidenced by recent unprecedented outages of telephone services to the Marrawah area. (sub. 24, p. 2)

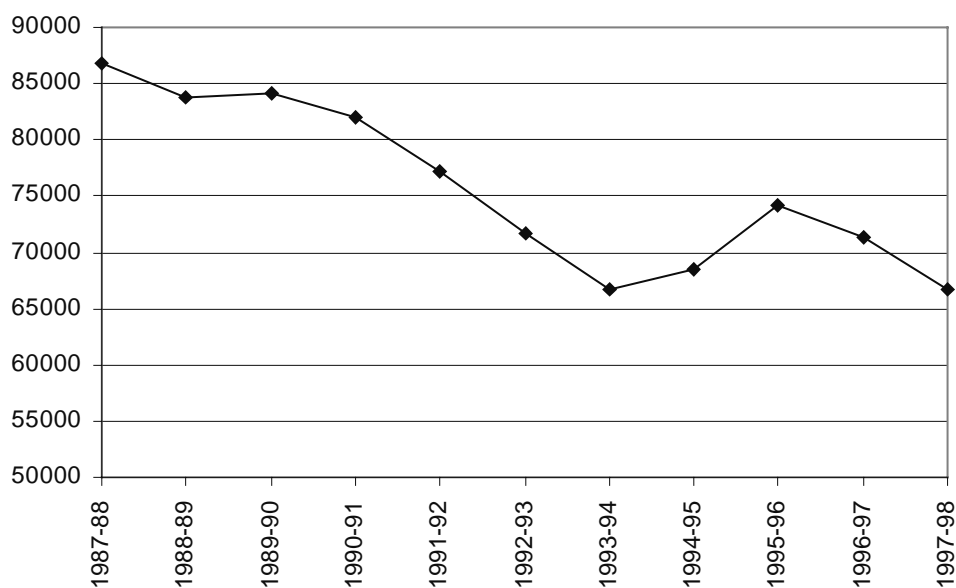
Gwydir Valley Irrigators said:

... reduction in [Telstra] staff reduce population in town, which affect small business ... (sub. 114, p. 3)

Dick Adams MP said:

... the changes that take place now is that there used to be people that lived on the coast that worked for Telstra. Nobody lives there now so every morning if your staying at Orford you'll see people come up from Hobart in a van and drive around the corner — whether to go and do the work on what has to be fixed up there, where in the past there was somebody up there that knew the system and was there. (trans., p. 410)

Figure 6.4 Telecom/Telstra employment, 1987-88 to 1997-98
Number of employees

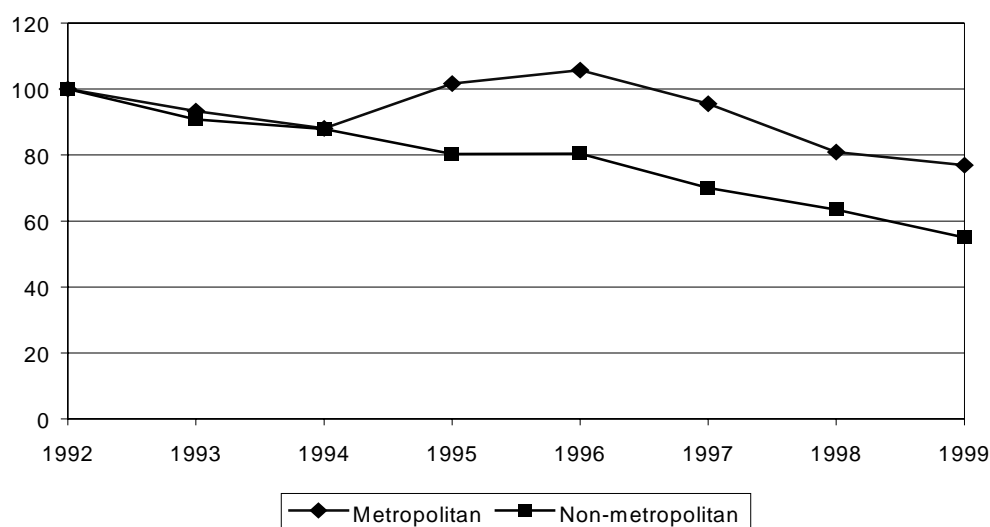


Sources: PC (1998e); SCNPMGTE (1993).

Employment in Telecom/Telstra declined from more than 86 000 in 1987-88 to around 67 000 in 1997-98 (see figure 6.4). However, it is unclear to what extent this decline has been (or will be) offset by higher employment with competing carriers or by contractors providing services to the carriers.

The decline in Telstra employment between 1992 and 1999 was larger in non-metropolitan than in metropolitan areas (figure 6.5). As at June 1998, 23 per cent of Telstra's workforce was located in regional areas with the remainder in metropolitan areas.

Figure 6.5 Indices of Telecom/Telstra metropolitan and non-metropolitan employment, 1992 to 1999
Index (1992=100)



Source: Telstra (sub. D278).

The reduction in employment and incomes from the closure or reduced size of a Telstra depot is likely to represent a larger share of total employment and income in a country town than in a metropolitan centre or larger town. For example, the loss of 70 Telstra jobs in the town of Narrandera represented nearly 3 per cent of the shire's total workforce (Narrandera Shire Council, sub. 196).

Call centres

The use of call centres dealing with a range of services — not only Telstra, but banking, electricity and government departments as well — staffed by people with limited knowledge or understanding of the local community was of particular concern to some participants in country Australia. The Commission was told that, in

the past, a local depot with local knowledge could easily identify from where the caller was reporting the service failure. With the shift to State-wide or national call centres, it is claimed that those receiving the call often cannot even identify the town or region from which the individual reporting the failure is calling from, let alone where the actual problem is in the town or region. This lack of familiarity with the local area was seen to be compromising safety, particularly in relation to emergency services. Ambulance services, for example, could be directed to a town of the same name, but in a different State.

These problems, and the sense of frustration felt by consumers in dealing with distant call centres in relation to a range of services provided by both the public and private sectors, are not unique to country Australia. While residents in urban areas may have an electricity, gas or Telstra depot located in their immediate neighbourhood, in most cases a central call centre in another location will take their call regarding service failure, connection to services or even a basic service inquiry. Of course, people living in country Australia may not as readily be able to exercise the option to deal directly with, and if necessary confront, the staff of the service provider.

On the other hand, call centres can provide employment benefits to some country communities. For example, as call centres do not need to operate in any specific location, the establishment of a call centres in country communities provides employment within that community. Participants pointed to call centres established in Burnie and Albury as an example of this.

Lack of access to adequate services

While many participants raised concerns about job losses and declining service standards, the most common concerns related to their apprehension about the future development of telecommunications in country Australia, particularly with government policy focussing on the commercialisation of Telstra. Many considered that commercial disciplines will lead Telstra to abandon its commitment to improve standards to enable country Australia to participate in the new technology necessary for the 'information revolution'.

The United Dairy Farmers of Victoria said:

With deregulation and increased competition the imperatives for good farm business practices will require farmers to have access to high quality telecommunications services. The current services are antiquated and do not allow farmers to use those systems to the same degree as their urban business counterparts. (sub. 78, p. 10)

The lack of access to mobile phone services and adequate and inexpensive Internet services was seen as an impediment to a competitive rural and regional Australia.

Surf Coast Shire said:

In Surf Coast, Torquay has at least 3 mobile phone service providers, however over half the shire would have NO mobile phone capacity (digital or analogue). (sub. 123, p. 1)

The Cattlemen's Union of Australia said:

With global markets changing rapidly and depending on a multitude of factors, it will be vital for best marketing practice that rural producers have access to the Internet so that they can follow world trends in their commodity or commodities. Many rural services are not presently of a high enough standard to be able to access this service. (sub. 89, p. 4)

The need for access to adequate and inexpensive telecommunication services was seen as important not only for commercial reasons, but also as a means of reducing the sense of isolation felt in parts of country Australia. The National Farmers' Federation said:

Investment in regional telecommunications infrastructure, is also critical to rural and regional communities. For these communities, affordable access to the latest information technology is an important aspect of reducing the tyranny of distance. (sub. 144, p. 2)

The use of information technology by rural producers—in particular, Internet usage—is not widespread. ABS data show that only a small proportion of Australian farms, around 12 per cent, were using the Internet as at March 1998 (see table 6.1). This is similar to the proportion of all Australian households with access to the Internet from home as at February 1998 (12.6 per cent), slightly lower than the proportion of households in capital cities (15.8 per cent) and higher than the proportion of households (7.2 per cent) outside capital cities with access to the Internet from home (ABS 1998b). In the following twelve months (to February 1999) access increased to 23 per cent of households in capital cities and 11 per cent of households outside capital cities (ABS 1999b).

The proportion of Australian farms using other information technology was higher with 44.8 per cent of farms using a computer, 47.2 per cent using a facsimile machine and 45.7 per cent using a mobile phone.

Table 6.1 Use of selected information technology by farms, March 1998

	<i>Computer</i>	<i>Internet</i>	<i>Facsimile machine</i>	<i>Mobile phone</i>	<i>Total no. of farms</i>
	%	%	%	%	
NSW	45.7	13.2	48.1	46.1	33 384
Vic	42.3	10.6	35.2	47.2	28 825
Qld	41.4	11.2	47.5	46.5	24 897
SA	47.8	13.0	51.2	46.3	12 773
WA	53.4	10.2	70.9	39.0	11 593
Tas	41.1	13.0	42.0	43.1	3396
NT	55.7	23.6	81.6	45.8	212
ACT	59.4	20.3	50.0	59.4	64
Australia	44.8	11.8	47.2	45.7	115 144

Source: ABS (1998f).

The slow take-up of Internet use may not only be due to a lack of access to technology. An Australian Bureau of Agricultural and Resource Economics (ABARE 1998c) survey found that 41 per cent of farmers with computers stated that the main reason for not having a modem, which is necessary for access to the Internet and other online services, was that it was not useful to them (see table 6.2). Cost was the main reason for not having a modem for 22 per cent of those farms surveyed, while an inadequate phone systems was considered to be the main reason for 12 per cent of the farms surveyed. This suggests that the quality of the phone service is not the major reason for farms not being connected to the Internet.

Table 6.2 Main reasons for farms with a computer not having a modem, 1996-97

	<i>Not useful</i>	<i>Too costly</i>	<i>Problems with phone service</i>	<i>Not technically familiar</i>	<i>Other</i>
	%	%	%	%	%
Crops	42	20	19	6	13
Mixed livestock-crops	44	16	8	6	26
Sheep	27	41	8	7	17
Beef	44	21	11	7	17
Sheep-beef	37	22	22	2	18
Dairy	52	12	5	6	25
All industries	41	22	12	6	19

Source: ABARE (1998c).

While the standard of existing services can be addressed through the CSG, it is more difficult to address access to new technology in telecommunications services, such as mobile phone and Internet service, and to determine what is an adequate level of telecommunication services for country Australia.

The USO could prescribe that a certain level of technology and services is to be available to all people across Australia, irrespective of their location. However, it may not be technically feasible to provide certain services to every location and the cost of providing a service at a prescribed level in some locations may outweigh the benefits. For example, the cost of the service may substantially exceed the value of the enterprise being served and any additional value the service could add.

In relation to upgrading the Customer Access Network (CAN) to provide high speed Internet access, Telstra said:

After a thorough analysis, the ACA concluded that the costs of upgrading the CAN to ensure uniform high speed internet access would outweigh the benefits. (sub. 137, p. 15)

The Commonwealth Government has decided to amend the USO to ensure that all Australians have access to suitable services to enable faster downloading of material (at 64 kilobit per second) to provide access to the Internet, the digital data service obligation. It is presently subsidising a rural satellite Internet trial to provide information on providing such a service. The amended USO, effective from August 1999, will make available a 64 kilobit per second international subscriber dialling network (ISDN) service on demand to at least 96 per cent of the population and a comparable 64 kilo bit per second data service using satellite technology for the remaining 4 per cent of the population (sub. D278).

The Hunter Economic Development Corporation claimed that this service would be unsatisfactory in certain regional areas because, while data could be received at sufficient speed via the satellite, it could not be sent at sufficient speed through the telephone service:

So what Telstra and Optus have done is provided a service whereby you receive information from the satellite and the technology is such that it doesn't cost very much, maybe \$1500 for a dish and whatever. But to send the information to the Internet service provider you still use your telephone service. In a lot of regional areas the telephone service — the course to that customer or access network back to the telephone exchange is unsatisfactory for sending high-speed data. (trans., p. 129)

However, the cost to overcome this problem would be considerable:

... if you could use a satellite in both directions, very fast access to send data and receive data via the satellite to an Internet service provider, it's a terrific fix. It's hugely expensive and not really feasible for all of these people. ...[to overcome this problem] you would realise that it is not cheap. It is something like \$1.5 billion, I think, they estimate it. (trans., p. 129–130)

While governments can extend the scope of the USO to improve access to services in rural and regional Australia, there is a cost. For example, the satellite dish and

equipment cost between \$1200 and \$1600 for each participant in the Internet satellite trial (Alston 1998). In extending the USO, government has to decide how to meet the cost — whether through industry levies, direct budgetary funding or cross-subsidies.

To improve telecommunication services in country Australia, the ‘social bonus’ from the sale of a further 16.6 per cent of Telstra is to be used to improve access to untimed local calls, providing Internet access at local call rates and extending mobile phone coverage.

The level of service that should be accessible is determined by governments as a social, rather than a competition policy issue — this is discussed in chapter 12. However, the method of funding the USO can have an impact on competition. In 1996-97, Telstra funded around 90 percent of the USO through cross-subsidies from its customers. The remaining 10 per cent is raised through a levy on the other carriers. While Telstra is required as the USO provider to provide unprofitable services, the other carriers, Telstra’s competitors, are able to ‘cherry-pick’ the profitable services. This may disadvantage Telstra if it requires Telstra to ‘tax’ the profitable areas in which it provides services — the areas in which competition or the threat of competition exists — to fund the USO services it provides. Also, competition may need to be restricted in the provision of certain services or in certain markets at the expense of consumers to provide Telstra with the monopoly power necessary to fund the USO services. Furthermore, raising the level of service that should be accessible increases the costs of the other carriers through the levy and may act as a disincentive to new players entering the market. The Commonwealth Government has recognised the potential for the current funding arrangements to cause uncertainty and deter investment and is currently undertaking a review of the funding arrangements with new arrangements to be introduced in 2000-01 (Alston 1999).

The Commonwealth Government can provide access to new and future telecommunications technology for country Australia by extending the USO. NCP does not preclude the Government from using or extending the USO, but the cost of providing such services needs to be assessed against the benefits derived from the use of these services.

Australia Post

Australia Post was corporatised in 1989. It operates a legislated monopoly in certain markets. The restrictions to competition — set out in the *Australian Postal Corporations Act 1989* — reserve certain postal services to Australia Post. For instance, only Australia Post is able to carry a standard letter (a letter weighing less

than 250 grams) for less than \$1.80 and deliver international mail in Australia. However, since 1984, around 50 per cent of Australia Post's revenue has been derived from contestable markets (eg parcels and express mail) (NCC 1998a).

As part of the legislative review process, the Commonwealth Government commissioned the NCC to undertake the review of the above Act. The NCC recommended that Australia Post continue to provide the Australia-wide standard letter service at a uniform rate in line with minimum performance standards. This is in contrast with the common, but incorrect, impression that uniform pricing is not allowed under NCP.

In July 1998, the Government announced its response to the review. It decided that:

- the standard letter rate would remain at 45 cents until 2003;
- the standard letter service would continue to be funded by cross-subsidies;
- the scope of Australia Post's monopoly on domestic mail would be reduced (to mail weighing less than 50 grams);
- incoming international mail would be open to competition; and
- it would give an undertaking that no rural and regional post offices or mail centres would close (Commonwealth Treasury 1998b; NCC 1998a).

A review is to be completed by 2003 to assess the impacts of these measures.

The Commonwealth Government's undertaking that no rural or regional Post Office would close was welcomed by participants. Tasmania's North West Councils said:

The recent promise from the Federal Government regarding the ongoing operation of Australia Post in a number of areas has been welcomed by North West Tasmania as a refreshing change from the announcements of closures of government services that we have become used to. (sub. 45, p. 9)

The Tamworth City Council said:

The government's recent assurance that Post Offices in regional Australia will NOT close as a result of the reforms flowing from NCP recognises the cumulative negative impact that is occurring as a result of reform of government monopolies in regional areas. (sub. 57, p. 6)

Concerns expressed to the Commission about a perceived decline in post office services in country Australia are not supported by the available statistics. These show that the total number of retail postal facilities in rural and remote areas increased between 1993-94 and 1997-98. This reflects a decline in the number of corporate post offices (ie these post offices operated by Australia Post) in rural and remote Australia, offset by an increase in the number of licensed post offices or

agencies and community post offices or agents. In metropolitan areas, the total number of retail postal facilities declined slightly over the same period. In 1997-98, more than half of Australia Post's retail outlets were located in rural and remote communities (see table 6.3). The cost of providing these services is discussed in chapter 12.

Table 6.3 Australia Post retail facilities by type and location^a, 1993-94 to 1997-98

<i>Retail outlet and region</i>	<i>1993-94</i>	<i>1994-95</i>	<i>1995-96</i>	<i>1996-97</i>	<i>1997-98</i>
	no.	no.	no.	no.	no.
Corporate post offices					
metropolitan	754	741	715	658	636
rural	389	341	322	305	281
remote	60	50	47	46	40
total	1203	1132	1084	1009	957
Licensed Post Offices and agencies					
metropolitan	1140	1151	1188	1219	1240
rural	1383	1395	1408	1433	1452
remote	266	276	277	273	273
total	2789	2822	2873	2925	2965
Community post offices or agents					
metropolitan	19	16	19	25	25
rural	245	244	279	336	350
remote	86	103	119	173	184
total	350	363	417	534	559
All retail outlets					
metropolitan	1913	1908	1922	1902	1901
rural	2017	1980	2009	2074	2083
remote	412	429	443	492	497
total	4342	4317	4374	4468	4481

^a The geographic categories are sourced from the Department of Primary Industries and Energy, Rural, Remote and Metropolitan Areas Classification – 1991 Census Edition.

Sources: Australia Post *Annual Report* (various years) and information supplied by Australia Post.

The real price of posting a standard letter anywhere in Australia fell by 8.7 per cent between 1991-92 and 1996-97. The PC (1998e) found that indicators of service standards and quality for Australia Post had remained high over the same period in rural and remote areas as well as in metropolitan areas. For example, the percentage of articles delivered in the advertised time never fell below 92 per cent over the five year period and delivery frequencies were maintained. Furthermore, of the estimated 2.35 million delivery points in rural and remote Australia, 94 per cent received five deliveries per week in 1996-97. The remaining 6 per cent received between one and four deliveries per week.

Nevertheless, there was concern that service would decline if changes were made to the mode of delivery by Australia Post. Ernie Bridge MLA was concerned that the mail service was at risk if mail was no longer delivered by air into towns in the Kimberley in Western Australia.

... it relates to the discontinuation of an airmail delivery service into the towns of Fitzroy Crossing and Halls Creek.

It's another one of those decisions that Australia Post has made which has been essentially in the business of cost cutting, cost efficiency, accountability and the need to streamline their operations, in that general category. What we now have in Halls Creek and Fitzroy Crossing, for the first time in almost 100 years ... is the discontinuation of a mail delivery into those towns. (trans., p. 219)

The Commission's investigations of this specific instance reveal a change in delivery methods which enable the service to be maintained at lower cost to public funds. For example, the discontinuation of the air mail delivery service to Halls Creek and Fitzroy Crossing did not lead to the loss of mail services to these towns or even lower service standards. The mail service was put out to tender and the winning tender was able to meet the service standard by a mixture of air and road services. This mixture of air and bus delivery provides the same standard of service (two days delivery from Perth) as the previous air mail services into Halls Creek and Fitzroy Crossing in the Kimberley. The mail is transported by air to Port Headland and then distributed by the bus network through the Kimberley. These centres have a five day a week mail and parcel service. The Western Australian Department of Transport maintains a subsidised air service into this region for passengers from Broome, but this service was unable to compete against the winning tender for mail services.

The House of Representatives Standing Committee on Transport, Communications and Microeconomic Reform also found that Australia Post's service to rural and remote Australia was satisfactory (HRSCTCMR 1996).

Australia Post's employee numbers have remained fairly stable. In 1987-88, total employment in Australia Post was close to 39 000. As at June 1997, there were 31 000 full-time and 6200 part-time staff (SCNPMGTE 1993, PC 1998e).

The impacts on country Australia from the changes to Australia Post have generally been positive. The cost of posting a letter in both country Australia or in metropolitan areas remains the same, the real price of posting a standard letter has fallen, nearly all of country Australia receives the same number of deliveries as in metropolitan areas, service standards remain high and the number of retail post outlets in non-metropolitan areas has increased.

7 National Competition Policy and the marketing of rural products

While many statutory marketing arrangements had been reviewed and dismantled prior to National Competition Policy (NCP), they are still a major feature of the institutional environment for certain rural products. As part of NCP, Australian governments have agreed to review systematically all of their remaining statutory marketing arrangements. Significant assistance is often provided to some rural activities through these arrangements. Consequently, review findings that they should be disbanded or modified to enhance community welfare more generally, can adversely affect some producers and some country regions.

7.1 Introduction

Statutory marketing arrangements have their origins in voluntary cooperatives formed at the turn of the century. Through these cooperatives, groups of producers sought to increase their returns by controlling the processing and marketing of produce. In the 1920s, some cooperatives sought, and gained, statutory backing for ‘compulsory cooperatives’. Wartime regulation expanded the use of compulsion and it became an integral component of the pricing and marketing framework for many agricultural industries.

Since the early 1970s, statutory marketing arrangements have been subject to increased scrutiny, with all States initiating reviews of them in the 1980s and early 1990s (IC 1991). In part, this reflects the availability of newer and more efficient means of achieving their historical objectives. For example, better and cheaper communications, the development of new financial tools to manage risk, and the adoption of a flexible exchange rate, have substantially reduced the need for statutory arrangements to smooth out the effects of fluctuations in world prices or large exchange rate shifts.

In addition, the recognition that price regulation and the equalisation of export returns often served to mask price signals and inhibit product innovation led some agricultural industries themselves — such as the Australian Dried Fruits

Association — to ask for such arrangements to be dismantled (Minister for Customs and Consumer Affairs 1998).

Reductions in assistance to manufacturing industry, coupled with Australian initiatives in international forums to reduce government intervention in agriculture, have added to the impetus for the review of statutory marketing arrangements. Consequently, well before the introduction of NCP, government reviews of statutory marketing arrangements were leading to the dismantling of arrangements for many commodities — such as canned fruit, bread, processed tomatoes, oilseeds, navy beans, peas, processed apples and peanuts.

Despite this, the remaining statutory marketing arrangements now constitute the major form of assistance to agriculture. For example, in 1996-97, they contributed more than \$500 million in assistance to a range of agricultural industries. This represented more than half of the total assistance afforded to agriculture as a whole (PC 1998f). Potential reform of statutory marketing arrangements thus has significant implications for many rural producers and, where activities are concentrated in particular locations, for regional communities.

There are presently Commonwealth statutory marketing authorities (SMAs) for dairying, horticulture, red meat products, wine and brandy, wool and pork. At the State level, statutory marketing arrangements still exist for a variety of primary industries, including bananas, citrus, red meat, grains, poultry, rice, tobacco, wine grapes, tomatoes, dairying, dried fruits, strawberries, eggs, sugar, honey and potatoes, although the deregulation of many of these arrangements has been announced. A list of Commonwealth, State and Territory SMAs as of the National Competition Council's (NCC's) Second Tranche Assessment, which covered each jurisdiction's review and reform progress to 31 December 1998, is provided in table 7.1. The Australian Wheat Board has since been privatised and no longer operates as a SMA.

In some areas of rural activity, agricultural cooperatives — voluntary producer organisations — operate successfully without any statutory backing. Common activities include building and operating storage and packing facilities, negotiating with buyers, the export of products and the operation and funding of processing facilities such as canneries. Cooperatives may potentially engage in anti-competitive practices such as price fixing, enforcing exit barriers and determining how much produce members can sell. Without statutory support, however, voluntary cooperatives face potential competition from producers selling outside the cooperative, and are subject to remedies under the Trade Practices Act (TPA). They are less likely to engage in anti-competitive behaviour than has been the case with SMAs.

The reform of SMAs, which has been under way since the 1970s, was given renewed impetus in April 1995 when Commonwealth, State and Territory governments agreed to implement NCP. Two aspects of NCP are particularly relevant to statutory marketing arrangements, namely:

- the extension of the competitive conduct rules of the TPA to all businesses, including SMAs and cooperatives; and
- NCP legislation reviews — Commonwealth, State and Territory governments have agreed to review and, where appropriate, reform legislation, which restricts competition by the end of the year 2000.

Table 7.1 Statutory marketing authorities in Australia^a

<i>Commonwealth</i>	<i>New South Wales</i>	<i>Victoria</i>	<i>Western Australia</i>
Australian Dairy Corporation	Banana Industry Committee	Australian Barley Board Melbourne Market Authority	Chicken Meat Industry Committee
Australian Horticultural Corporation	Central Coast Citrus Marketing Board	Murray Valley Citrus Marketing Board	Cooperative Bulk Handling Limited
Australian Pork Corporation	Meat Industry Authority	Northern Victorian Fresh Tomato Industry Development Comm.	Dairy Industry Authority of WA
AWB Limited	Murray Valley Citrus Marketing Board	Tomato Industry Negotiating Committee	Dried Fruits Board of WA
Australian Wine and Brandy Corporation	NSW Dairy Corporation	Victorian Broiler Industry Negotiating Committee	Grain Pool of WA
Wool International	NSW Grains Board	Victorian Dairy Industry Authority	Honey Pool of WA
Meat and Livestock Australia	Poultry Meat Industry Committee	Victorian Meat Authority	Potato Marketing Corporation of WA
	NSW Rice Marketing Board	Victorian Strawberry Industry Committee	WA Egg Marketing Board
	Wine Grapes Marketing Board	Wine Grape Industry Negotiating Committee	WA Meat Industry Authority
	Wine Grape Processing Industry Negotiating Committee		WA Meat Marketing Corporation
<i>Queensland</i>	<i>South Australia</i>	<i>Tasmania</i>	<i>ACT</i>
Queensland Dairy Industry Authority	Australian Barley Board Dairy Authority of SA	Egg Marketing Board of Tasmania	Milk Authority of the ACT
Queensland Sugar Corporation	Poultry Meat Industry Committee	Tasmanian Dairy Industry Authority	
	SA Dried Fruits Board		
	SA Citrus Board		

Sources: IC (1995a); sub. 283; sub. D298 ; sub. D302.

7.2 Application of the Trade Practices Act

The TPA prohibits a number of anti-competitive practices. For some practices, such as the misuse of market power, the prohibition is absolute. Other practices, such as exclusive dealings contracts, can be authorised (ie allowed) by the Australian Competition and Consumer Commission (ACCC) subject to a ‘public benefit’ test (see chapter 4). Thus, anti-competitive arrangements can be allowed even though they might:

- substantially lessen competition;
- prevent competitors acquiring goods from, or supplying goods to, a particular person;
- allow one person trading with another to impose restrictions on the other’s ability to choose with whom, or in what, they deal (exclusive dealing);
- allow one person supplying goods or services to others to require that the other person acquires goods or services from a particular third party (tied sales); and
- allow suppliers, manufacturers or wholesalers to specify a minimum price below which goods or services may not be sold (resale price maintenance).

The ‘authorisation’ and ‘notification’ provisions of the TPA give the ACCC the power to grant immunity from legal proceedings for most arrangements which otherwise might breach restrictive trade practices (ACCC 1998, p. 34).

The TPA (section 51(2)(g)) also ‘provides an exemption for contracts that relate exclusively to the export of goods from Australia or to the supply of services outside Australia’ (NCC 1998g, p. 18). In other words, anti-competitive practices are permitted if returns to Australian producers can be increased at the expense of overseas consumers. In the above-mentioned report to the Commonwealth Treasurer on 5 March 1999, the NCC recommended that this exemption be retained, noting that its use may increase as reforms to statutory marketing arrangements proceed.

The arrangements for the Australian Wool Exchange Limited illustrate an ACCC authorisation decision (box 7.1). The Australian Chicken Growers’ Council (sub.166) also noted that, when South Australia abolished its poultry meat legislation, authorisations were put into place for two processor groups (see appendix C). Authorisation processes can be put in place also for cooperatives — the ACCC authorised arrangements for the Victorian Egg Industry Co-operative (ACCC 1998).

Thus, although the extension of the TPA to SMAs is designed to promote competitive pricing and marketing of agricultural commodities, a wide range of anti-competitive arrangements may be allowed by the ACCC if they can be shown to be in the public interest. In particular, these can be used to provide agricultural producers with a transitional mechanism where marketing legislation has been revoked.

Box 7.1 Authorisation and the Australian Wool Exchange Limited

'The Australian Wool Exchange Limited (AWEX) was established by major groups in the wool industry to fill the vacuum left by the Government's withdrawal from the marketing of wool. AWEX sought authorisation for ... rules and codes of conduct for buying and selling wool in Australia. The [ACCC's] general concern with a public company gaining such a large share of the market was that it would be in a position to stifle innovation and competition. It was also concerned that participants in the industry felt that they must join AWEX if they were not to be disadvantaged... . A number of small brokers indicated ... that they felt they had been 'railroaded' into joining AWEX.

However, the [ACCC] recognised that the wool industry needed a period of stability to adapt to the dramatic changes it had recently undergone while AWEX reviewed its selling regulations and business rules to reflect the move to a deregulated market. ... It also accepted that there were public benefits in AWEX maintaining many of the current industry standards after deregulation to provide for continuing quality control while it developed a comprehensive quality assurance program. ... A program, which enhanced the willingness of processors to buy Australian wool and to pay premium prices for it in the face of competition from other countries, was seen as delivering benefits to the public.

The [ACCC] accepted that there was a public benefit in AWEX maintaining the existing wool selling rules, industry standards and codes of conduct to provide for the efficient functioning of the market during the transition phase. It granted authorisation for a period of three years... '

Source: ACCC (1998), p. 35.

7.3 Review of SMA legislation

The legislation review program aims to ensure that legislation does not restrict competition unless it can be shown that the benefits to the community as a whole outweigh the costs, and that the objectives of the legislation can only be achieved by restricting competition.

Legislation underpinning SMAs is required to be reviewed because it is potentially anti-competitive. This section summarises progress in each jurisdiction's legislation reviews relating to SMAs, including consideration of some completed reviews. Further details of legislation reviews affecting primary industries can be found in appendix C.

Progress with the review schedule

Despite the recent confirmation of the commitment by Commonwealth, State and Territory governments to review statutory marketing arrangements under the NCP by the end of the year 2000, significant reviews in some jurisdictions are not scheduled until late in the review period (see box 7.2).

Box 7.2 Progress with reviews of agricultural marketing legislation^a

Commonwealth: Two reviews are under way, but neither has been completed. Some legislation is not slated for review under the initial (to December 2000) timetable.

New South Wales: Reviews have been completed for rice, dairy, bananas, cooperatives, meat, farm produce, poultry processing, wine grapes, and tobacco. The reviews of grain and citrus marketing are still under way.

Victoria: Reviews have been completed for barley, dried fruits, and wine grapes. A review of marketing orders relating to tomatoes in Northern Victoria, and strawberries and emus, is under way. Reviews of citrus, dairy and broiler chickens are also under way. The review of meat marketing is to commence this year. The review of wheat marketing is awaiting the Commonwealth review.

Queensland: Reviews have been completed for the Brisbane Market Authority, cooperatives, dairy, sugar, primary producer marketing, fruit marketing, chicken meat, and grains. The Egg Industry Act 'sunsetted' in December 1998.

Western Australia: Reviews have been completed for bananas, chicken meat, cooperative societies, dairy, dried fruits and the meat industry authority. Reviews are in progress for eggs and potatoes. Reviews of meat, wheat marketing and the *Perth Market Act 1926* are to commence this year.

South Australia: Reviews of barley (in conjunction with Victoria), and poultry meat have been completed. Reviews of wine grapes, citrus, dairy, dried fruits are under way. A review of wheat marketing is to commence in 1999.

Other jurisdictions: Reviews of the Tasmanian dairy and egg industries have been completed. The ACT has one piece of statutory marketing legislation, the *Milk Authority Act 1971*, for which a review has been completed. The Northern Territory has no statutory marketing legislation since the repeal of the *Grain Marketing Act*.

^a Progress as of 31 December 1998, reported for the NCC's Second Tranche Assessment, 30 June 1999. Some reviews shown as under way may have been completed since December 1998.

Source: Appendix C.

The NCC has previously expressed concerns about the timing of reviews:

... the Council also questions the priorities being placed on important reviews by some governments ... one example of a government failing to schedule important reviews early is the Commonwealth's planned examination of the *Wheat Marketing Act 1989* in 1999-2000. (NCC 1996a, p. 19)

At the Commonwealth level, there is little in the way of SMA reform outcomes that can be attributed directly to NCP. Reforms to wool, wheat, red meat and dried vine fruit arrangements reflect largely independent reform processes. Of the three pieces of legislation scheduled for review by June 1998, one (the *Wool International Act 1993*) was removed from the review schedule, while reviews of the others (the *Pig Industry Act 1986* and associated legislation and the Primary Industries Levies Acts and related Collection Acts), have not yet been completed (NCC 1999b, vol. 3).

Progress at the State and Territory level varies. Despite significant progress in the overall program of legislative review, reviews of several major agricultural commodities — barley, chicken meat, dairy, rice and wheat — are still under way. Among the reviews of statutory marketing legislation which have been completed, governments have announced in many cases that existing restrictions on competition will continue during transitional phases.

Consequently, it is difficult at this stage to assess the impacts of SMA reforms:

... many of the statutory marketing arrangements are still in place and yet to be reviewed. Therefore, it is too soon to assess how large the benefits and costs will be and who may gain or lose from any changes to these arrangements. (Commonwealth Treasury 1998b, p. 48)

FINDING 7.1

The process of reviewing statutory marketing arrangements is well under way, but, to date, relatively few of these reviews have been completed or reforms implemented. Consequently, it is too soon to assess the effects of these reforms.

Legislation review issues

More than four years have passed since the NCP was agreed to by the Commonwealth, State and Territory governments. It is more than three years since each jurisdiction's legislation review schedule was published. Questions have arisen about NCP review processes and the legislation review outcomes.

Review processes

Questions have been raised about the composition of groups conducting (or overseeing the conduct of) the reviews. Some submissions argued that the use of non-industry representatives has produced poor outcomes. According to the Queensland Farmers' Federation, this can include:

... an overt and at times aggressive attitude by Government representatives in relation to the primacy of efficiency gains ... it appears to be ideologically driven and somewhat divorced from a genuine search for balanced economic reform. (sub. 90, p. 7)

Pritchard (sub. 184) used the New South Wales legislation review of the Wine Grapes Marketing Board as a 'case study' to demonstrate such concerns. He considered that the report was couched in market theory and presented the competing claims of the Board in a 'tokenistic and disinterested manner'.

At the level of NCP implementation, as shown through the example of the NSW Legislative Review of *the Marketing of Primary Products [Wine Grapes Marketing Board] Act*, an enthusiasm for pro-competition outcomes can preclude wider debate into issues of agricultural supply chain efficiency. (sub. 184, p. 27)

In contrast, some participants were concerned about over-representation by industry groups. The Queensland Produce, Seed & Grain Merchants' Association noted:

... in the case of some reviews of Australian grain marketing, the reviewers have been representatives of the actual statutory organisations being reviewed. This was the case in the most recent review of the grain regulations in Queensland where Grainco was represented on the review committee (and had a vote) and was the main beneficiary of re-regulation. (sub. 106, pp. 1–2)

Translating principle into operational outcomes from each review requires detailed industry knowledge. Industry involvement also may help the industry to 'sign on' to the reform process. This may be significant in ensuring that reform proposals are implemented effectively.

On the other hand, efficient outcomes require reform groups to make well-balanced assessments about the effect of changes from the perspective of the broader community. This could be difficult if some members of the group have a close association with either the industry or major users. Rather than have direct representation on review groups, it may be preferable for the involvement of industry and user representatives to occur via submissions or evidence at hearings with the review group. The NCC has said:

The Council has various concerns about the reviews conducted to date. For example, the split along industry and government lines of recommendations from the New South Wales [dairy] Review Group highlight the Council's concerns about the need for review panels, particularly in sensitive areas such as dairy, to be independent from industry. Industry should participate in reviews via submissions ... rather than direct representation on review panels. (1999b, vol 1, p. 104)

The appropriate roles of producers, users and others were raised in an earlier inquiry into aspects of NCP (Hawker 1997a). Its recommendations and the Commonwealth Government's response are outlined in box 7.3. The Commission endorses these

recommendations and the Government's response, but recognises that constituting a review panel with appropriate industry knowledge and independence may be difficult in practice.

Box 7.3 Recommendations of the Hawker Committee

The Hawker Committee inquiry into aspects of the National Competition Policy reform package (Hawker 1997a) recommended, in relation to legislation reviews, as follows:

Recommendation: *'The level of consultation may vary with the significance, diversity and sensitivity of the review. Consultation should involve key stakeholder groups'*. In endorsing this recommendation, the Government indicated that, for minor reviews of essentially in-house matters, consultation may be unnecessary, but that in the majority of cases considerable consultation will be warranted.

Recommendation: *'Where possible reviewers should be independent of the existing arrangements with more significant, more major and more sensitive reviews demanding greater independence'*. The Government agreed and added that:

- minor reviews may be best performed by an inter-departmental committee comprised perhaps of individuals involved in administering the matter under review;
- more significant and sensitive matters will require greater independence; and
- a judgment must be made on the necessity for independence versus specialist expertise — while members of the review body should not be directly involved in decision making, they need to have an understanding of existing arrangements.

Source: Hawker (1997a); HRSCFIPA (1998).

Another administrative problem identified in submissions relating to NCP processes is the expense for industry associations in arguing their case to review panels. For instance, the Western Australian Farmers' Federation claimed that it had:

... spent upwards of \$50 000 in preparing its submission ... for the legislative review process of the dairy sector. If this is to be a recurrent cost to every other commodity sector represented ... then such a situation would be untenable. (sub. 138, p. 14)

while Queensland's CANEGROWERS told the Commission:

CANEGROWERS estimates that direct costs for its review [the Sugar Industry Review] were in the order [of] \$2 million, with an additional \$2 million at least in meeting costs borne by the participants. Implementation since then could cost up to an additional \$1 million. (sub. D285, p. 4)

It is unlikely that all reviews would require such costly input. It is anticipated that, unlike major reviews such as that of the dairy industry, many other reviews will be relatively minor in nature. Nonetheless, if more significant reviews are to be conducted as recommended, this will require the involvement of interested parties.

Review outcomes

Aspects of the outcome of some reviews have been criticised by participants, as well as being raised as a matter of concern by the NCC. These concerns focus on the extent to which the implementation of reform is consistent with review recommendations, and the extent to which outcomes of some reviews are consistent with the intent of NCP. In the case of the New South Wales rice review, the implementation of some of the recommendations of reviews has been slow, despite findings that public benefits would flow from reform (box 7.4). Other reviews — sugar, and several State reviews of the dairy industry — have recommended the maintenance of anti-competitive arrangements (see boxes 7.5 and 7.6 below).

Box 7.4 New South Wales rice review

A 1995 review of the Rice Marketing Board recommended the retention of a single desk approach to rice exports and the deregulation of the domestic market by discontinuing vesting on 31 January 1999. In November 1997, the NSW Government decided to continue the Board's vesting powers until 2004, based on its assessment that the benefits of the regulations exceeded the costs to consumers. In June 1997, the NCC raised concerns about whether the outcome of the New South Wales assessment was consistent with the CPA, and recommended that the Commonwealth deduct \$10 million from the NCP payments due to NSW. In August 1998, the Commonwealth Treasurer announced that a working group comprising representatives of the NSW Government, rice growers and the NCC had been established to develop a solution to this matter. The Commonwealth then offered to facilitate the establishment of a single desk selling arrangement for export rice contingent on deregulation of the domestic sector. New South Wales has given in-principle agreement to this outcome, and it appears that the \$10 million competition payment will be made by the Commonwealth. Nevertheless, the NCC will monitor progress and make a supplementary second tranche assessment if progress is unduly delayed.

Sources: Appendix C; NCC (1999b, vol. 1).

Concerns have been raised also about the quality of analysis that has underpinned the recommendations of some reviews. For example, in relation to reviews of dairy, chicken meat and sugar in Queensland, the Queensland Farmers' Federation stated:

... only parts of the industry have come under close scrutiny with other parts not analysed at all. Short-cuts [in the use of data] have been taken in work done in reviewing at least one industry in this State which certainly throw into question the reliability of the results. (sub. 90, p. 4)

The outcomes of the dairy reviews raise some questions about the use of cost-benefit analysis and the public interest test. For example, in some reviews, benefits may be included which are not really attributable to the existing regulations. The NCC has commented that:

The Council is concerned about the robustness of the cost–benefit analysis undertaken in reviews ... some of the identified ‘benefits’ presented in support of retaining marketing arrangements are doubtful ... (NCC 1999b, vol. 1, p. 104)

Box 7.5 The Queensland sugar review

The Sugar Industry Review Working Party (SIRWP) reported in November 1996. The Queensland and Commonwealth Governments accepted all 74 recommendations. The review recommended the removal of the tariff on sugar imports, which it estimated cost consumers up to \$27 million per annum. The tariff was subsequently removed. It also recommended the continuation of compulsory acquisition for all raw sugar produced in Queensland, the retention of the Queensland Sugar Corporation (QSC) as the single desk seller for the export and domestic markets, that the pooling of revenues and costs and coordinated management of quality be retained, and that a system of producer pricing be introduced. The Commonwealth Government introduced amendments to the TPA to retain the compulsory acquisition powers of the QSC.

The NCC was not convinced about the basis of the SIRWP recommendations, but did not challenge the outcome of the review. Its concerns centred on the review’s conclusion that ‘the benefits of full domestic deregulation could be achieved by mandating the provision of export parity priced raw sugar to the domestic market while, at the same time, avoiding the adverse impact of domestic deregulation on the competitiveness of export arrangements’. In response, the Queensland Government undertook to reconsider marketing arrangements for sugar within ten years if changes in market conditions suggest that the arrangements no longer provide a public benefit.

Sources: Appendix C; NCC (1999b, vol. 1).

Another concern is that the costs and benefits may be inappropriately weighted. The ‘public interest’ test is designed to ensure that social, environmental or other ‘non-economic’ costs and benefits are taken into account in the assessment. In the Queensland and New South Wales dairy reviews, however, the ‘public interest’ test has been used to give special emphasis to the social costs of deregulation on the grounds that they are geographically concentrated. In this context, the NCC has argued that:

A common difficulty encountered when considering legislative reform is balancing the concentrated nature of the benefits arising from restrictions with diffuse benefits, often spread across the economy, from reform. ... the Queensland Dairy Review Group ...believed that the highly concentrated benefits to a few from the existing arrangements should be protected at the expense of the more diffuse costs to the majority. This approach is inconsistent with the principle underpinning the NCP ..., that such arrangements should be reformed unless it can be shown that they deliver a net benefit to the community as a whole. (1999b, vol.1, p. 104, emphasis in original)

There is also the potential for the costs of deregulation to be over-estimated. For example, if dairy farmers are able to maintain their dairy herds by becoming more efficient, or could switch into other commodities, or if their local regions could

attract other industries, then the social costs can be overstated and the assumption that the cost–benefit assessments do not capture all the costs of deregulation may be incorrect. In such circumstances, where reform is not recommended on the grounds that adjustment will be costly, a State would forgo reforms for which the benefits exceed the costs. The NCC has argued:

The approach proposed by New South Wales and Queensland for their dairy industries, leaving existing arrangements in place for a further five years without a progressive introduction of transitional arrangements to open competition, has the potential to exacerbate any industry dislocation. Such an approach provides no impetus or incentive for the dairy industry to prepare for, and respond to, expected change. (1999b, vol. 1, p. 106)

Box 7.6 State dairy reviews

In July 1998 the Queensland Legislation Review Committee (QDLRC) recommended that farm gate milk prices should continue to be regulated, and supply management arrangements should continue until 31 December 2003. The justification for these recommendations was that deregulation of prices and supply restrictions would lead to significant adverse economic impacts for some rural communities in Queensland, but that the benefits of deregulation to Queensland consumers were much more dispersed.

In New South Wales, the review of the *Dairy Industry Act 1979* recommended that milk production quotas, farm gate price regulations, and the vesting powers of the NSW Dairy Corporation should all be retained on the grounds that they provide dairy farmers with countervailing power against processors, and that their removal would lead to adverse economic impacts for dairy regions. The NSW Government accepted these recommendations and extended farm gate regulation until 2003.

In Western Australia, the review of the *Dairy Industry Act 1973* estimated that farm gate regulations provide an annual subsidy to dairy farmers of around \$26 million, and that the discounted value of production quotas was around \$88 million. Despite this, the review recommended that: farm gate price regulation be retained to provide countervailing power against processors; the Dairy Industry Authority retain its vesting powers; and the quota system be retained. These recommendations were endorsed by the Western Australian Cabinet.

Sources: Appendix C; NCC (1999b, vol. 1).

The NCC’s concerns about the way in which the ‘public interest’ test has been used in the case of the dairy industry and other reviews have led it to raise the possibility of recommending that the second half of the second tranche payments be withheld in the year 2000 for all jurisdictions (NCC 1999b, Overview).

A further issue relates to the ‘sustainability’ of some review outcomes. For example, the review of the Queensland dairy legislation acknowledges that the

ability of its key recommendations to be put in place will depend on the outcome of the Victorian dairy legislation review. While the Queensland Government announced that it would maintain the farm gate price for milk, the dairy review committee noted:

The proposed regulated farm-gate price ... and associated supply management arrangements ... would be difficult to maintain if deregulation occurs in Victoria before 31 December 2003. It may be necessary to review these recommendations when the outcome of the Victorian NCP review is known. (QDLRC 1998, pp. 14–15)

This would also be the case for New South Wales. For this reason, the NCC did not recommend the withholding of competition payments in the second tranche assessments:

... recognising the significance of the outcome of the Victorian review in determining the direction of reform Australia wide, the Council [will] consider the New South Wales, Queensland, Western Australia and ACT reviews through a supplementary assessment before July 2000. (NCC 1999b, vol. 1, p. 104)

Sustainability of review outcomes was also an issue in the 1997 Queensland grain review. It recommended the retention of vesting for export barley subject to review should circumstances change in other States.

The Australian Chicken Growers' Council drew attention to a lack of consistency with legislation reviews in different States:

Because the NCC has not set any precedent as to what is acceptable public benefits testing through outcomes analysis, each state has modified its approach to different acts over time as well as their previous reviews have (mainly) been rejected out of hand or substantially modified by the NCC. (sub. 166, p. 10)

This view of the NCC is commonly held. However, it is not the role of the NCC to reject or modify reviews. Moreover, the NCC released a document in November 1996 entitled 'Considering the Public Interest under National Competition Policy' which provides some guidance for review panels. Nevertheless, the Commission sees merit in State governments providing guidance to review groups on their interpretation of the broad-ranging public interest criteria, and has made a recommendation to this effect in chapter 11.

7.4 The impacts of SMA reform under NCP

Although the operations of SMAs vary considerably — both between products and between SMAs for the same product in different jurisdictions — SMA objectives are typically pursued through a range of powers which can encompass:

- vesting — the compulsory transfer of ownership of a commodity to an SMA;

-
- setting or negotiating prices — for example, setting different prices for different markets and end users (eg farm gate and retail prices);
 - compulsory levies on producers to fund marketing activities or other services;
 - licensing producers and exporters; and
 - pooling and equalisation arrangements.

The instruments used by SMAs, such as acquisition of produce and price and production controls, affect the manner in which commodities are produced, processed or otherwise used and consumed. By influencing production, industry structure and prices — sometimes through the entire chain from the farm gate to wholesalers and retailers — statutory marketing arrangements can give rise to significant efficiency and distributional gains or losses.

SMAs can enhance efficiency if they improve market outcomes. Characteristics sometimes associated with rural products, such as the abuse of market power by buyers due to their concentration or the perishability of a commodity, the scope for premiums to be obtained in export markets, the existence of economies of scale and scope, and the public good nature of generic promotion, suggest that there is the potential for marketing arrangements to improve on market outcomes.

On the other hand, SMAs can detract from efficiency by restricting the entry and exit of firms or individuals into markets and by controlling prices and/or production levels. SMAs can also impose a range of restrictions on quality, advertising and promotional activities and, perhaps more importantly, reduce incentives for innovation.

The benefits and costs associated with SMAs depend on the nature of the arrangements in place and typically change over time. Whether the costs of a particular statutory intervention are outweighed by the benefits can be determined only on a case-by-case basis. This underlines the need to scrutinise statutory marketing legislation (and similar legislation which confers power upon producer cooperatives) under NCP.

Many SMAs have successfully used their powers outlined above to increase the returns which accrue to growers at the expense of processors and/or consumers. Consequently, producers' concerns about NCP reforms are focussed around the potentially adverse effect on grower returns of dismantling the present arrangements. While the Commission recognises that changes in statutory marketing arrangements do have the potential to lead to large losses for industry participants and some country regions, reform can still be justified on the basis that these adverse effects are outweighed by the benefits which accrue to other

Australian producers and final consumers, and — perhaps most importantly — the improved incentives for innovation.

Many of the instruments used by SMAs have been defended in terms of the need to:

- provide growers with a countervailing power against the perceived market power of processors and other end users;
- maximise returns from exports;
- iron out fluctuations in prices and production due to market instability and natural variability such as weather;
- capture economies of scale and scope in marketing and production;
- provide information and market development, research and promotion; and
- establish quality controls and standards.

These objectives often can be achieved without the statutory backing afforded to many of the anti-competitive restrictions associated with SMAs. Consequently, the outcomes of deregulation may not be as severe as many farmers expect. In relation to the dairy industry and the reasons advanced for the maintenance of farm gate regulations — ensuring year-round milk supplies, countervailing the power of processors and retailers, protecting dairy farmers from corrupt world markets, and supporting regional economies — the NCC has argued:

- It is not clear why milk is significantly different from other basic foods, the price[s] of which fluctuate throughout the year... . . . year round supply would be achieved in the absence of supply management arrangements, with higher prices paid to producers in lower production periods to ensure supply.
- It is not clear that there is undue concentration and/or abuse of market power by retailers. Any risk of this is reduced by large farmer co-operatives that are a significant feature of the milk processing sector Further, ... there are remedies available under the TPA.
- It is true that world prices for dairy products are distorted ... this has been the case for years ... matching overseas assistance would impose significant costs on the Australia [sic], not only through any direct payments to producers, but through domestic market distortions and a reduced incentive for the industry to innovate.
- While regional development is a legitimate ... objective ... a tax on milk consumers to subsidise producers is a particularly blunt policy tool to achieve this objective ... (1999b, vol. 1, p. 105)

The market structures which emerge as a result of SMA reform will determine the distribution of any gains from reform between the growers, the processors, and final consumers (both domestic and overseas). In other words, whether grower returns will fall after the removal of anti-competitive restrictions will depend in large part

on the existence and nature of market power in different sections of the domestic market — processors, exporters, growers etc — and on the ability of growers to price discriminate between domestic and export markets.

The changes in market structures and the relationships between growers, processors and retailers as a result of SMA reforms will also determine the distribution of gains from the removal of other forms of assistance to agricultural industries. For example, lower tariffs should lead to lower domestic prices. If processors have market power, these lower prices will not necessarily be passed on to retailers and consumers unless the domestic market is also deregulated, such that increased competition can prevent the processors simply increasing their margins.

Where SMA reforms have been implemented, the ex-post assessments of the removal of anti-competitive regulation need to be sophisticated enough to account for other influences which can confound simple ‘before and after’ comparisons. These other factors encompass changes in weather, technology, prices for labour and other inputs, access to markets, consumer tastes, exchange rates, the price/availability of substitute products, and the price/availability of products supplied by overseas competitors. If account is not taken of these factors, the declining fortunes of growers in a particular industry could be incorrectly attributed to SMA reform rather than drought, declining world prices for commodities, etc.

The Commission received very little concrete evidence of the effects of past reforms of statutory marketing arrangements, even though it held discussions in several regions which have experienced the loss of statutory marketing and other arrangements, such as the Atherton region of Queensland (removal of statutory marketing and tariffs for tobacco), Mildura (deregulation of the dried fruits industry), Shepparton (statutory marketing arrangements for deciduous canning fruits), and Mount Gambier (abolition of milk price equalisation).

Apart from the experience of the tobacco growing regions in Queensland, participants considered that their regions had not been subject to lingering negative effects from deregulation.

In the case of Shepparton, when the deciduous canning fruits industry was reviewed in 1987, the Australian Canned Fruits Corporation said at the time that deregulation would lead to only one canner remaining in Australia, the loss of 3300 jobs (full-time equivalents of seasonal jobs), 1000 growers going out of business and the cessation of exports (IAC 1987). After the review, the Corporation was wound up and the industry deregulated. This was not considered to have been a major issue during the Commission’s visit to Shepparton, and the Commission notes that both canneries, Ardmona and SPC, remain in the region.

In the case of grain deregulation, the Pastoralists' and Graziers' Association of WA argued:

Since the deregulation of the domestic grain market in the Eastern States of Australia, there has followed huge investment in value adding infrastructure. This has created employment in regional areas and pricing options for grain growers. (sub. 72. p. 3)

Participants' views on SMAs

The overwhelming weight of submissions from agricultural producer groups (eg chicken meat, eggs, dairy, various grains and sugar) supported continuation of their respective statutory marketing arrangements. Indeed, many considered that even 'testing the benefits' of long-standing arrangements was inappropriate. Several arguments were advanced in support of statutory marketing arrangements:

... single desk selling is a vital pillar to [the] structure of the sugar industry ... acquisition and single desk selling for the Queensland raw sugar industry clearly provides net benefits to the community ... (CANEGROWERS, sub. 46, p. 10)

There is general agreement that the single desk [for barley] is able to price discriminate. However, other reasons the Board may be able to increase revenues are that the supply guarantee allows them to spread risk. If the Board did not exist, there would be higher variability in quantity, quality and price and lower confidence levels existing among producers to produce new and existing crops. (NSW Grains Board, sub. 61, p. 9)

A decentralised Tasmanian egg industry would be unlikely to adopt a cooperative structure as all producers grade, sell and distribute direct to market. There is a public benefit in having a central body to administer food safety, producer education and improved farm practices. (Tasmanian Egg Producers Association, sub. 63, p. 9)

... statutory bodies have played a central role in the provision of stability and certainty to the agricultural industry while keeping prices to consumers low. (Western Australian Farmers' Federation, sub. 138, p. 6)

SMAs can play important roles in areas such as standards and quality control, fostering appropriate research and development and international sales. (National Farmers' Federation, sub. 144, p. 9)

Such claims were not uncontested. For example, the Pastoralists' and Graziers' Association of Western Australia (PGA) said that:

Many of the groups and individuals objecting to national competition policy proceeding are a vocal minority simply protesting against the fact that their legislated privilege is to be reviewed. A compounding measure is the fact that statutory authorities that have been reviewed have been found wanting ... (sub. 72, p. 1)

The Chamber of Commerce and Industry of Western Australia cited disadvantages of SMAs to producers as: a limited capacity to determine what to grow; lack of control over prices; loss of earnings if a product does not meet SMA standards or

timetable; limited capacity to achieve a competitive edge through quality, innovation, downstream processing or product differentiation; vulnerability to incompetence by a SMA; reduced returns owing to a SMA's administration costs and/or licence fees; reduced contact with consumers and processors; and potential exposure to penalties 'for activities which are not immoral and which in other very similar industries and activities would be legal and acceptable (for example, Western Australia has a black market in illegally traded potatoes, but not carrots)' (sub. 183, p 16). The Chamber and the PGA gave examples to support their claims (box 7.7).

Other participants — generally producers (who wanted more autonomy), processors and those using regulated inputs as feedstock into their own production processes (such as pig farmers) — also expressed dissatisfaction with aspects of statutory marketing arrangements. For instance, the Australian Grain Exporters Association advocated abandoning statutory marketing arrangements in favour of:

... a competitive and complete marketing system that dramatically increases the linkage between growers and the market ... fully commercial grower owned marketing companies capable of competing on equal terms with other members of the grain trade ... the unrestricted ability, in terms of Federal and State legislation, for grain to be exported by all private entities/parties ... (sub. 112, p. 4)

The National Farmers' Federation — which supported many facets of statutory marketing arrangements — summarised the arguments for reform of SMAs as:

- greater freedom to choose how, when, at what price and to whom products are sold;
- a possible reduction of the share of farmers' returns spent on administration costs;
- greater individual control over production, marketing and risk-management;
- greater incentives and opportunities for farmers, producers and rural communities to undertake innovative marketing and invest in higher-value, post-farm products; and
- removal of inappropriate (assumes incorrect now) prices signals as a result of the appearance of financial viability (sub. 144, p. 8).

Clearly, there are strongly held arguments for and against statutory marketing arrangements, even among producers who are commonly identified as beneficiaries of such arrangements.

Box 7.7 **The potato police and other tales from Western Australia**

The Chamber of Commerce and Industry of Western Australia noted that:

During 1997 and into 1998, Galati Nominees, a WA potato grower and CCI member, came into dispute with Western Potatoes [a SMA]. The dispute arose initially when the growers failed to supply their crop within the deadline specified by the authority and were subsequently prohibited from selling their product for domestic retailing at premium rates. Rather than sell into the cheaper export or processing markets, the growers decided to give away their produce to WA consumers in an effort to draw attention to what they considered inappropriate anti-competitive legislation ...

Western Potatoes responded by engaging a private security firm to undertake surveillance of the growers' property, at a cost of \$268 616, in order to 'ensure compliance with the Marketing of Potatoes Act'. In response to a question on notice, the representing Minister indicated that this had gained '... potential savings of around \$2 million to the industry by preventing Galati's export and processing potatoes from entering the domestic ware market'. At the same time, potatoes grown in South Australia were freely entering the WA market.

This seemingly trivial and at times farcical example of the impact of anti-competitive legislation on an agricultural family business illustrates both the difficulties and the importance of addressing competition policy issues. Apart from the costs to WA consumers of potato market regulation (around \$12 million a year, probably along with a reduced quality and range of product), the impact of such policing tactics seems intrusive ... and expensive.

The Pastoralists' and Graziers' Association of Western Australia reported that:

The Grain Marketing Act of 1975 is the legislated privilege under which the Grain Pool of WA operates. In 1997, it was amended to allow free export of value added prescribed grains. The Australian Wheat Board embarked upon a project, which involved the value adding to lupins. The AWB were paying a premium to the projected pool returns of the GPWA. The GPWA, however, threatened legal action against the AWB over this issue, which was viewed as a threat to GPWA's single desk privilege. The AWB subsequently backed down due to its reluctance to inflame a public squabble with another statutory marketing authority. The result is that lupin growers in WA have lost an alternative market option which was paying a premium price. Lupin growers and the grains industry are poorer as a result.

Sources: Sub. 72; sub. 183.

FINDING 7.2

The range of conflicting views on the validity and effectiveness of statutory marketing arrangements reinforces the importance of NCP in requiring the review of such arrangements in order to assess whether they benefit the community as a whole.

Assessing the effects of future SMA reforms

Single desk selling

Centralised selling of agricultural commodities has been a longstanding feature of some major commodities (eg grains and sugar). Single desk selling typically has been underpinned by compulsory acquisition powers granted to SMAs. The extent to which single desk selling has increased industry returns through higher export prices has been the subject of debate for many years (IC 1991).

Initiatives to increase the returns to Australian producers in overseas markets are compatible with the interests of producers and the community as a whole. Broadly speaking, price premiums can arise in two ways: Australian exporters can raise world prices through restricting supply; or they can take advantage of price differentials in different markets.

In practice there is little scope for Australian agricultural producers to increase their returns by restricting supply and raising world commodity prices. Even though Australia is a major agricultural exporter, it is a ‘price taker’ in international markets (chapter 3). Removal of single desk seller arrangements would have little effect on the prices realised in overseas markets.

For many commodities, however, the ‘world’ market is in fact a series of regional markets, with different prices and market conditions able to persist because of transport cost differentials. Thus for some products or in certain niche markets, by controlling supplies Australia could be in a position to influence prices received in particular export markets, even if only for part of a year (eg because of seasonal factors). In this situation, the removal of a single desk selling arrangement could lower export returns and be contrary to the interest of producers, rural areas and the community as a whole. CANEGROWERS have argued:

The Queensland raw sugar industry is able to extract a premium for export markets, however by no means does the Queensland industry influence world prices. ...For the Queensland raw sugar industry, there is the ability to influence supplies and therefore price of raw sugar in [the] Far East (Asia) region. (sub. D285, p. 4)

Despite the possibility of lower returns to growers if single desk selling arrangements were dismantled, this could nevertheless be in the overall interests of the wider community. For example, there have been claims that single desk selling and associated arrangements inflate producer costs. In some industries it is alleged that transport, storage and/or administrative costs put in place by statutory marketing authorities are more costly than those that would exist in a competitive market. For some products — such as grains — international commodity traders

commonly argue that they are in a position to better realise the value of Australian products and pay higher prices to local producers than is a statutory body. This is because of their capacity to ‘package’ different grains from different sources and their established international trading practices and links.

Another community-wide benefit may be the greater capacity (and incentive) which producers have in a competitive market to develop new products and search out new markets which yield higher than average returns — a capacity which is generally denied them under centralised marketing arrangements. For instance, Joe White Maltings Limited (JWM) stated, in relation to restrictions on barley marketing:

Deregulation will provide growers with more choices in the marketing of their malting barley. As an end user, JWM will be able to assist growers with clear market signals relating to both pricing and quality requirements. With deregulation, JWM anticipates efficiency improvements and better prices for growers. (sub. 19, p. 5)

Similarly, the Pastoralists’ and Graziers’ Association of Western Australia has argued that one of the costs of regulation is a reduction in the quality and range of products offered, as well as lower prices to growers:

... even though they [SMAs] cause a higher price to the buying public, they generally bring about a lower average to the supplying grower. ... In a free and open market the effective and efficient producer will produce a better product that can attract a premium in the market place. (trans., p. 67)

and the Tasmanian Government has said in relation to legislation reviews in general:

Many existing legislative restrictions on competition impose substantial costs on consumers and society, through either cross subsidies, barriers to market entry by new businesses, unnecessary business costs or reduced incentives for firms to innovate and improve their efficiency. (sub. 198, p. 14)

In practice, it is difficult to demonstrate that single desk selling arrangements have (or have not) increased export returns. Even if data show that Australian commodity export prices are consistently higher than international prices, it can be difficult to ascertain the extent to which these higher prices may be attributable to other factors — such as higher quality, delivery arrangements, the availability of credit and other financial arrangements, the provision of technical assistance and the timing of sales.

In some cases, price premiums on export markets have been attributable to the import restrictions imposed by the importing country, as for meat imports into the United States in the 1970s and 80s, and barley imported into Japan (IC 1991). More recently, the Centre for International Economics (CIE) found that export price premiums for barley were due to quality and transport cost differentials rather than

any export pricing powers of the Australian Barley Board (CIE 1997). The Industry Commission has argued previously that:

Price premiums attributable to market power should not be confused with price premiums per se which are affected by quality, sales volumes, services provided, delivery arrangements, goodwill, timing of sales and finance arrangements. (IC 1991, p. 45)

On the domestic market, single desk arrangements can be used (in the absence of close substitute products) to hold prices higher than they would be under competitive conditions. For tradeable goods, this margin can be considerable, especially if local producers are afforded protection against imports. If, following an NCP review, this capacity to extract domestic premiums is lost, producers — and possibly the regions in which they are located — may be worse off. However, this does not imply that Australia as a whole is worse off. Indeed, as domestic premiums from single desk selling are attained at the expense of higher prices paid by other Australians (ie users and consumers), their removal would usually be consistent with the national interest.

Countervailing market power

Many producers claim that the dismantling of SMAs will leave them at the mercy of large corporations which dominate some segments of the domestic food distribution chain. They claim that the statutory marketing regime provides them with the capacity to offset ('countervail') the market power of those businesses. For example, the Queensland Farmers' Federation noted:

Existing arrangements for collective bargaining provide producers with some countervailing power in the market place. If these arrangements were unravelled there would be a shift in market power with already large processors and retailers gaining greater dominance and primary producers suffering a loss of influence. (sub. 90, p. 50)

It is certainly true that, for some products — either nationally or in some regions — one or a small number of buyers account for a large proportion of domestic sales by growers. This does not necessarily mean that these large buyers do not compete against each other or that they will be able to force prices below levels which would exist in a market where there were more buyers.

There are several stages in the chain between grower and consumer where there may be a potential for market power. Although the retail sector is characterised by considerable concentration, there is little evidence that this concentration enables retailers to exercise market power by 'gouging' either their suppliers or consumers (chapter 9).

Whether the concentration in the food processing sector can be used to drive prices to growers below competitive levels depends, in part, on the ability of processors to find alternative supplies of foodstuffs, and the ability of growers to find alternative purchasers. For instance, 50 to 90 per cent of most horticultural crops are sold to processors. Horticultural commodities are highly perishable, and the horticultural sector is characterised by small-scale family farms. It is possible that the processors can exert downward pressure on prices paid to growers because of the risk that growers will be unable to sell their produce in a timely manner if they do not accept the price offered.

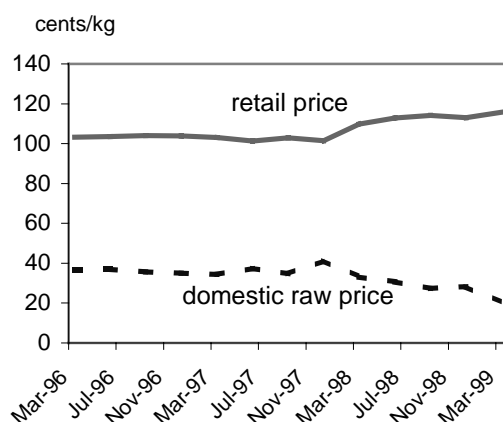
Reflecting these characteristics, SMAs have been most prevalent for horticultural commodities sold to processors. The sale of fresh produce directly to retailers as has been predominantly through contracts between growers and retailers, which specify quality and time of delivery etc. The Commission has noted previously that, where SMAs raise prices to growers, they can lead to excess production of horticultural commodities for processing, and under-production of fresh produce. They can also provide a measure of assistance to inefficient growers, thus reducing the market share of efficient producers and thereby reducing innovation. Finally, they may provide an incentive for processors to grow their own produce (IC 1993a).

Meat producers are less likely to be vulnerable to such price pressure from processors given the greater flexibility with which animals can be sent to slaughter, and the availability of export markets for both meat and live animals. This gives growers some control over the sale of their product. Moreover, processors have some protection from growers' ability to raise prices artificially because of the high degree of substitutability in consumption between different types of meat (beef, pork etc). If one group of producers raises their prices, consumers can switch to another meat product (IC 1995c). Thus, past increases in meat processors' margins have been attributed to factors such as low labour productivity and inefficient (costly) meat inspection practices (IC 1994a) rather than market power on the part of processors.

The competitive nature of the retail sector makes it more likely that, if prices to retailers fall, then those price reductions will be passed on to consumers. Whether prices to retailers will fall as a result of SMA reform depends on the nature of the bargaining power between growers and processors, and between processors and retailers. This leaves four possible outcomes from SMA reform:

1. reduced prices to growers, with processors able to capture the efficiency gains via higher profit margins;
2. reduced prices to growers, which are then passed on to retailers (and consumers), with processors simply maintaining their margins;

Figure 7.1 Sugar prices, March 1996 to March 1999



Source: CANEGROWERS (sub. 46, p. 8).

3. higher prices to growers, with processors absorbing the cost increase. Prices to consumers would remain unchanged; or
4. higher prices to growers which the processors pass on to the retailers (and hence consumers).

Hence, the actual outcome of SMA reform, in terms of grower returns, processors' margins and prices paid by consumers will differ from commodity to commodity. For instance, where processing, distribution and retail margins in the dairy industry have been regulated by price controls at the farm gate and beyond, it would be surprising if some realignment of margins between dairy

producers, processors, wholesalers and retailers did not occur after deregulation. Another example is provided by the removal of the sugar tariff from 1 July 1997. After the tariff was removed, the domestic price of raw sugar fell. As shown in figure 7.1, this does appear to have been followed by a realignment of margins in which the returns to sugar processors have increased.

Many concerns have been raised in this inquiry about 'middlemen' supposedly taking advantage of deregulation at the expense of producers (and, to a lesser extent, consumers). Two detailed examples are presented below, for the dairy industry and chicken meat.

Example 1: Dairy industry deregulation

Many submissions from dairy farmers claimed that fixed farm gate prices for milk were required to prevent 'middlemen' from capturing the benefits of deregulation.

The only winner in the deregulation of the dairy industry will be the processors and supermarkets ... (Wagga Wagga Dairy Farmers, sub. 96, p. 6)

It is unfair that the producers have had to take a cut in their milk price when the retailer and the processors have increased their profits by millions. Deregulation is not suited to every industry and the Dairy Industry is one of those. (Winzer and Winzer, sub. 118, p. 1)

I fail to understand why I eventually will go out of business and the processors and retailers continue to increase already record profits. (King, sub. 119, p. 1)

In our case NCP means giving these powerful vested interested groups, eg big companies, a free ticket to take the small business out of production and then maintain the wealth for the company and shareholders. (Queensland Dairyfarmers Organisation — Eungella Branch, sub. 11, p. 2)

In October 1998, the New South Wales Minister for Agriculture said that, three months after the deregulation of *retail* milk prices in New South Wales, the price of milk had increased 3 cents per litre.

This just goes to show that the National Competition Policy and deregulation is not always a good thing. ... As a direct result of that decision to deregulate, the farm gate price for farmers has been collectively forced down from 53.35 cents a litre to 50.038 cents a litre, vendors have had their margins cut from 11.5 a litre to 6 cents a litre, and processors have also faced some reductions in their margins.

The results are perfectly clear. The dairy farmers have lost out, the vendors have lost out and the consumers have lost out. The only winners are the supermarkets. (Minister for Agriculture and Minister for Land and Water Conservation 1998b)

The Minister appended the results of a survey by the New South Wales Dairy Corporation (table 7.2).

In Victoria, the 1992 deregulation of the milk market beyond the farm gate was accompanied by an increase in consumer milk prices. This has been linked to the actions of supermarkets, which in an unregulated environment have increased retail margins for milk (Sheen 1998).

Thus, retail price deregulation does appear to have led to an increase in the price of milk to consumers. Since retail price regulations were designed to increase the producer's 'cut' and to suppress processing and retailing margins, it is not surprising that these margins have risen in States which have deregulated their post farm gate controls. Of itself, this is not evidence of abuse of market power — it simply indicates that processing and retailing margins have risen to more normal competitive market levels. Given the competitive nature of retailing (see chapter 9) it is unlikely that this rise in the price of milk does represent profiteering by supermarkets.

Table 7.2 Results of survey into retail prices of milk in New South Wales

The NCC also points out that, as long as farm gate prices continue to be regulated, thereby preventing the cost of raw milk to processors from being reduced, this adjustment of retail

<i>Pack size</i>	<i>Pre-deregulation</i>	<i>Post-deregulation</i>
300ml	0.50	0.51
600ml	0.76	0.78
1 litre	1.16	1.19
2 litre	2.32	2.34
3 litre	3.48	3.45

Source: Minister for Agriculture and Minister for Land and Water Conservation (1998b).

margins can only occur through higher retail prices (NCC 1999b, vol. 1). The lack of price sensitivity of demand for milk products also lends itself to this outcome, since retailers would expect to lose few sales as a result. A similar argument was made by the Commonwealth Department of Agriculture, Fisheries and Forestry - Australia (AFFA) in its submission to this inquiry. AFFA (sub. 200) argued that retail prices will not begin to fall until farm gate regulations are relaxed.

The extent to which full deregulation, that is including farm gate prices, will actually lead to lower retail prices will depend on whether lower farm gate milk prices are passed along the system to the retailers. If processors have a degree of market power and can appropriate lower input costs resulting from farm gate deregulation by increasing their margins, then lower farm gate prices need not be fully passed on to retailers and consumers.

The Commission notes that deregulation of the *retail* price of milk in New South Wales also led to reductions in farm gate prices. This in part reflects competitive pressure from Victoria suppliers, but it could also suggest that processors do have some capacity to maintain their margins. Hence, it is possible that price reductions as a result of *farm gate* deregulation might not be fully passed on to consumers.

Regardless of the extent to which farm gate deregulation will lead to lower retail prices for milk, there is little question that it will reduce the prices received by dairy farmers.

In some States, sustaining the regulated farm gate price has required the use of restrictive market milk quota allocations to stop farmers saturating the market at that price. These quotas have become valuable assets in their own right. Indeed, the Commission has been made aware of cases in which farmers have negotiated loans on the basis of their quota allocation. The subsequent collapse of the inherent value of the quota in a deregulated environment could have serious consequences for debt servicing and farm viability for some dairy farmers who are dependent on them.

In turn, this could have implications for some dairy regions in country Australia. Despite the fact that farm gate deregulation will involve lower prices for farmers, with the associated adjustment difficulties as some have to leave the industry, it is also the case that over the long run, a deregulated market will also lead to a much more innovative and efficient dairy industry. This will not only benefit Australian consumers of milk products, but will also strengthen the economies of dairy regions, placing them on a more sustainable economic footing. Thus, while *prices* to farmers may fall as a result of deregulation, it does not always follow that all *farm returns* will fall.

Example 2: Chicken meat authorisation

The chicken meat industry illustrates the argument about countervailing power. The ACCC recently authorised a five year arrangement, which allows Inghams Enterprises Pty Ltd to negotiate a collective growing agreement with its contract chicken growers (ACCC 1997a). This authorisation for chicken growers was in recognition of the need for some (transitional) countervailing power in their dealings with processors.

While this collective agreement is consistent with the countervailing power argument, there are significant differences in the nature of the chicken meat and other industries. In contrast to, say, dairy farmers, who own their cows and control production up to the farm gate, contract chicken growers have a more limited role — growers produce the chickens, but processors specify the breeding of chicks (and the choice of breeding stock) and provide feed, medication and technical advice. That is, the ‘growing’ function is essentially contracted out.

The ACCC authorised the chicken meat arrangement to ease adjustment towards industry deregulation. It noted that the arrangement could lead to anti-competitive outcomes, such as: limiting the ability of chicken growers to switch processors; reducing entry into the growing and processing markets; and increasing the possibility of collusive anti-competitive behaviour. However, it saw a public benefit in sanctioning an interim arrangement on the grounds that deregulation was unlikely to occur unless there was a mechanism in place to protect growers in the transition stage. It also noted that its concerns about the potentially anti-competitive effects of the arrangement were partly alleviated by the existence of termination clauses, a company code of practice and by the ability of growers to negotiate individually with Inghams if they did not wish to be part of the collective process. This is in stark contrast to the compulsory nature of many statutory marketing arrangements.

Other issues

There are other ways in which reform of statutory marketing arrangements could reduce producer returns. These include:

- a reduced capacity to market products effectively;
- a reduced capacity to ensure and monitor quality standards; and
- loss of economies of scale and scope in marketing and distribution.

By and large, effective marketing, distribution and quality control do not require statutory backing. For example, several important agricultural industries have prospered without the need for statutory marketing authorities to act as monopoly

sellers. Australian raw cotton, for example, is marketed successfully under a competitive market system. Cotton growers have achieved economies of scale and applied sophisticated marketing strategies without the need for compulsion.

Implications for country Australia

While reform of SMAs has the potential to benefit consumers and users in both metropolitan and country Australia, parts of country Australia are vulnerable to reduced grower returns in agricultural industries which are regionally concentrated. The following are indicative of submissions received by the Commission:

To the extent that primary production takes place mainly in regional or rural communities while the consumption of primary products is spread across the whole community, reductions in the monopoly power of marketing authorities could be seen to be disadvantaging regional and rural Australia relative to metropolitan Australia. (Chamber of Commerce and Industry of Western Australia, sub. 183, p. 15)

In effect the outcome of these state legislation reviews is to move capital from the producer ('small business') to big business and from rural areas to the city. (Australian Chicken Growers' Council, sub. 166, p. 10)

Deregulating the industry and removing special producer marketing advantages is seen as a means of reducing prices for Australian consumers whether they be wholesalers, retailers or the end consumers. The inference is that the cost of deregulation will be shouldered by the producer. (National Farmers' Federation, sub. 144, p. 12)

... the removal of legislative support to the industry will result in the loss of about 20 per cent of dairy farmers. This will have a detrimental flow-on effect on regions centred around Harvey and Vasse [in WA] where there is a heavy investment in the dairy industry. (Western Australian Farmers' Federation, sub. 138, p. 21)

The view of the Western Australian Farmers' Federation about the potential impacts of dairy deregulation was echoed in discussions with dairy industry participants in regions of New South Wales, Tasmania and Queensland.

In Queensland, the regional impacts of deregulation of farm gate market milk were assessed by modelling six scenarios to reflect varying assumptions (QDLRC 1998). The State-wide effects of deregulation were estimated to range from a loss of \$28 million to a gain of \$54 million (net present value over a ten year period, in 1996-97 dollars). The results showed that the Darling Downs, Wide Bay Burnett and the Far North were most likely to contract if the farm gate price of milk was deregulated. Other regions would expand, with the main beneficiary being the Brisbane-Morton region.

In the worst affected region — Darling Downs — the projected job losses were in the order of 76 persons. To put the employment loss into perspective, the total

labour force in the region in 1996 was around 86 800. The employment in Brisbane-Moreton was projected to increase by 134 persons.

The QDLRC considered that the efficiency gains, being widely dispersed, were less important than the costs of deregulation which would be regionally concentrated:

Whether a region expands or contracts after deregulation will depend on the 'concentration' of dairy production relative to consumers as a whole. If price reductions are passed on, consumers will gain an effective increase in real income from farm-gate deregulation while farmers will lose. Thus regions with a high concentration of consumers relative to farmers will tend to benefit from multiplier effects. In contrast, regions with an emphasis on production and relatively few consumers can be expected to contract as a result of multiplier effects. (QDLRC 1998, s. 11.4)

... the overall impact on the economy is of less concern than the potentially important regional impacts. (QDLRC 1998, s. 14.6)

The QDLRC review quite properly assessed the costs of reform on particular dairy regions, but appears to have placed relatively little emphasis on the costs of restrictions on competition created by the regulations. The review recommended, and the Queensland Government agreed, that the regulated farm gate price of milk should continue until the end of December 2003.

7.5 Managing reform at the regional level

Given the diversity of agricultural commodities, it is difficult to draw general conclusions about the effects of reform. Indeed, it may not even be appropriate to infer the effects of future reform by drawing on the past experience of rural industries which have been subject to reform of their statutory marketing arrangements. The significant differences in the nature and extent of reforms implemented and the very disparate circumstances of agricultural industries and regions make such inferences problematic. These differences, coupled with the fact that there are invariably 'winners' and 'losers' associated with every reform process, help to explain the different perspectives expressed by participants about the outcomes of the reviews.

Nevertheless, the removal of some statutory marketing arrangements undoubtedly would expose some agricultural producers to significant adjustment pressures. Furthermore, because production of agricultural commodities is a significant contributor to many rural communities throughout Australia, it is not surprising that some participants suggested that support for regional economies should be a prime rationale for retaining practices such as farm gate price controls.

The Commission concurs that ending anti-competitive arrangements which presently transfer income to agricultural producers could have adverse effects for some regional communities. The severity of these effects are likely to vary across regions depending on:

- the magnitude of the transfer;
- the extent to which the value of anti-competitive regulation has directly been capitalised into asset values;
- the significance of commodities covered by anti-competitive arrangements in particular regional economies;
- the scope for farmers to diversify into other agricultural pursuits; and
- alternative employment opportunities outside agriculture.

Other considerations, which also can bear on the regional effects of reform, include: farmers' capacity to offset lower prices through productivity improvements and farm amalgamations (particularly notable in the broadacre and dairy sectors), or by switching into new, higher-value crops; and farmers' ability to institute alternative arrangements for capturing economies of scale and scope in, say, marketing without recourse to anti-competitive legislation.

Reforming SMAs can pose difficulties for policy makers because the costs of reform to individual producers can be substantial, whereas the benefits to dispersed consumers may run to a few cents per purchase. Transfers delivered in this way are conducive to the formation of interest groups with the capacity to mount pressure on politicians to maintain the status quo. This sets up an environment where arrangements which impose substantial costs on the community overall are likely to continue. The inertia inherent in such an environment does not mean that reform should not take place. Rather, it reinforces the need for governments to ensure that appropriate use is made of public interest criteria during NCP reviews and that the adjustment capacity of individuals and regions affected by reform is taken into consideration during the implementation of reform.

These issues and some direct mechanisms to meet regional development and adjustment assistance objectives are canvassed in part C of this report.

8 Impact of competitive neutrality and contracting on local government

Competitive neutrality (CN) policy applies to the business activities of all levels of government, although its application to local government has been of most interest to this inquiry. The policy has generated a mix of benefits and costs, but it is too early to assess its full impact on country Australia. There is still broad concern about the operation of the ‘public interest’ test used to assess whether application of CN policy to local government activities is appropriate, although recent efforts by governments are improving community awareness.

The policies of State and local governments on contracting-out, while not formally a requirement of National Competition Policy (NCP), are related to it insofar as all jurisdictions have deemed that in-house bids from government agencies for competitive tenders are subject to the application of CN policy. Some jurisdictions also have chosen to tie competitive tendering and contracting into their approach for complying with their CN obligations under the Competition Principles Agreement.

8.1 Introduction

Participants’ comments on CN almost universally related to how it would affect the operations of local government in country Australia. A subset of these concerns was how CN might interact with the competitive tendering policies of State and local government and, thus, affect the operations and the viability of the communities that local governments serve.

8.2 What is competitive neutrality?

Competitive neutrality requires that significant government business activities should not enjoy any net competitive advantage over their competitors simply as a result of their public ownership.

Competitive neutrality does not extend to offsetting competitive advantages arising from factors such as business size, skills or location — factors which are independent of ownership. Neither does it require governments to deliver social programs via competitive market-based mechanisms, nor competitively tender a given proportion of government business activity. Moreover, the principles of CN do not apply to the non-business, non-profit activities of publicly owned entities.

The Competition Principles Agreement (CPA) spells out the manner in which the principle of CN may be applied to government business activities. In essence, it requires designated businesses to ensure that their prices take account of:

- full attribution of costs incurred in providing the goods or services (see CCNCO 1998a);
- full Commonwealth, State or Territory taxes or tax equivalents;
- debt guarantee fees (directed at offsetting any competitive advantages provided by government guarantees);
- a commercial rate of return; and
- regulatory costs equivalent to those which their private sector competitors would normally experience.

The agreement requires governments to adopt a corporatisation model for government business enterprises classified by the Australian Bureau of Statistics as ‘Public Trading Enterprises’ (PTEs) or ‘Public Financial Enterprises’ (PFEs).

However, the agreement stresses that governments are required to implement CN only ‘to the extent that the benefits to be realised from implementation outweigh the costs’.

Clause 7 of the agreement states that each State and Territory government is responsible for applying CN to local government (even though local governments were not parties to the agreement).

The agreement allows Commonwealth, State and Territory governments the freedom to determine their own agenda for the implementation of CN principles. This has resulted in differences between jurisdictions in the speed with which the policy has been applied and in how the principles of CN are applied ‘on the ground’ (see section 8.3).

Where it is properly implemented, CN can lead to benefits such as:

- more efficient pricing practices in government businesses;

-
- longer-term performance efficiency gains as a result of government businesses operating in a more competitive environment;
 - improved transparency and accountability by presenting costs in a manner comparable to that of the private sector; and
 - better assessment by public sector managers of whether government should retain responsibility for certain business activities or consider alternative means of service provision (NCC 1997b, p. 2; Commonwealth Treasury 1998a, p. 1).

8.3 Commonwealth, State and Territory government approaches to competitive neutrality

Each government has published a policy statement outlining its approach to implementing CN. In addition, all relevant jurisdictions have published policy statements on how CN is to be applied to the activities of local government within their jurisdiction. (The exceptions — the Commonwealth, ACT and the Northern Territory — have either no local government or no significant local government business activities). To support their policy statements, all jurisdictions have (in cooperation with local government associations) released an extensive range of publications on aspects of the implementation process and provided for specific training of local government officials. In South Australia, government funds were used to provide a consulting service dedicated to assist councils with implementation queries. (For details of these measures, see NCC 1999b, vol. 3.)

As well as applying CN principles to significant businesses, each jurisdiction requires the policy to embrace in-house bids for competitively tendered contracts. This is of particular significance for local government activities.

Despite being derived from common principles, the various CN policy statements exhibit differences in how jurisdictions have chosen to meet their obligations. Examples of these include different approaches by governments to what constitutes a ‘significant government business activity’ and the ‘settings’ which apply to specific components of CN (eg the level of debt guarantee fee for an activity).

In some cases, these differences are of little significance — eg variations in the level of debt guarantee fees and rates of return chosen for businesses (Plain 1998). Of more significance are the different thresholds chosen by governments as a guide to whether corporatisation is warranted (see box 8.1) and the differing interpretations of which activities are to be deemed ‘significant business’ activities and, thus, likely to be subject to CN.

Box 8.1 Thresholds suggested by jurisdictions for adopting corporatisation of government businesses

The Competition Principles Agreement allows governments flexibility in implementing competitive neutrality. This has led to different thresholds used as a guide to whether corporatisation of a business is warranted. For example:

The Queensland Government policy statement notes that, as a guide, corporatisation will generally be appropriate only for those Government business activities which have an annual current expenditure in the vicinity of \$15 million or more. (Queensland Government 1996a, p. 27)

The Victorian Government's policy notes that, as a guide, organisations with a revenue base less than \$10 million and/or fewer than 15 employees should not be considered for corporatisation. (Victorian Government 1996, pp. 37–8)

The policy statement of the New South Wales Government notes that, as a general rule, businesses with annual sales turnovers of \$2 million and above may be suitable for corporatisation (NSW Government 1996, p. 10). For these businesses, the presumption is that, in such cases, the benefits will exceed the costs. If a council considers otherwise, it must conduct a benefit–cost test to prove that. (DoLG. 1997, pp. 2–3)

Western Australia, by contrast, offers no threshold of turnover or employment as a guide for when corporatisation may be presumed to be warranted.

These designated thresholds are intended only as a guide. They do not preclude an assessment of whether the benefits to be realised from applying the corporatisation model (or indeed competitive neutrality) outweigh the costs.

All governments have treated those activities classified as PTEs or PFEs as 'significant' business activities — as required by the agreement. However, the CPA offers no guidance on which other activities may constitute significant business activities (NCC 1997b, p. 9). This has led to jurisdictions adopting different criteria for determining other significant business activities.

Although jurisdictions have shown marked variation in their approach to implementing CN at local government level, differences in local government circumstances make a consistent approach difficult. As the NCC has noted:

The number of local governments, their geographical dispersion and their diversity in terms of size, organisational structure and service responsibilities have made a consistent approach to reform difficult. (1998a, p. 144)

Jurisdictions have also shown marked variation in the timing of their application of CN to their local governments. South Australia and Tasmania, for example, initially did not progress as far as other States — primarily because they waited for some local government amalgamations to be completed. That notwithstanding, the June

1999 assessment by the National Competition Council (NCC) indicates satisfactory progress with implementing CN at local government level in all relevant jurisdictions (NCC 1999b, p. 12).

At the Commonwealth, State and Territory level, most of the action to date has been with the application of the corporatisation model to significant business activities. This reflects a decision by governments to apply CN to the more significant activities before moving on to less significant ones.

8.4 What is competitive tendering and contracting?

Competitive tendering and contracting (CTC) is the process of selecting the preferred provider of goods and services from a range of bidders by seeking offers and evaluating these against predetermined selection criteria (DOFA 1998, p. 7). CTC is often accompanied by a structural change within the government agency in order to separate the purchasing arm and the providing arm — the so-called ‘purchaser/provider’ split.

CTC, which is also common in the private sector, is not an end in itself. It is a means to achieve better performance, and is one of many reforms aimed at improving the efficiency and effectiveness of government operations. Used successfully, it is a means by which, for example, local governments can deliver an improved quantity and/or quality of services for each dollar of expenditure.

The use of CTC by public agencies is not new. It existed well before NCP reforms. Mail delivery, for example, has been contracted since it was introduced in Australia. Local governments have also contracted refuse collection and road maintenance since the early 1900s.

National Competition Policy does not require CTC by government agencies. As the Hawker Committee noted:

Neither the legislation nor the Agreements contain any obligation to impose outsourcing requirements on local government or to introduce competitive tendering. This has been a common misperception and has led to confusion in these early stages of competition policy implementation. (1997a, p. 58)

Statements made during this inquiry indicate that this misperception and confusion is still widespread.

However, there is a link between CTC and NCP reforms. This occurs in two ways. First, all jurisdictions have deemed that in-house bids by government agencies for competitive tenders will be subject to CN policy — which is part of the NCP

reforms. Second, some jurisdictions have unilaterally chosen to link CTC with their approach for implementing CN to meet their obligations under the Competition Principles Agreement. For example, the Public Sector Research Centre noted that Victoria, South Australia, Western Australia and Tasmania have implicitly or explicitly linked NCP with competitive tendering (sub. 136, pp. 9–10). As well, a number of councils have developed policies on the application of competition policy in their jurisdictions which contain guidelines for competitive tendering and contracting (ACRLF sub. 192, p. 8).

It is not the role or intent of this inquiry to provide a comprehensive review of CTC. That has been done by the Industry Commission's report on *Competitive Tendering and Contracting Out by Public Sector Agencies* (IC 1996a). That inquiry included an examination of the scope of CTC at all levels of government in Australia, its benefits and costs, and employment effects.

It is appropriate, however, for this inquiry to report on the extent to which NCP reforms (specifically CN) interact with CTC and how this may affect country and metropolitan Australia.

Most of the information provided to the Commission related to the application of CTC at local government level. The CTC practices of State and Territory governments also attracted comment.

8.5 Participants' views on competitive neutrality

Information from submissions, the Commission's round of meetings in rural and regional Australia and public hearings provided a range of views on the perceived worth of CN policy and how it has been implemented.

Correcting artificial advantages

Some participants welcomed the policy as a positive move to address artificial advantages enjoyed by businesses operated by all levels of government. The NFF, for example, noted that prior to CN an exemption from sales tax had given government businesses a significant commercial advantage over private sector competitors (sub. 144, p. 18). Resource Consulting Services (sub. 101) saw a clear need for CN policy to curb the 'grossly unfair competition' its business faced from government activities — which, it claimed, accounted for only a fraction of their costs in their prices.

Gwydir Valley Irrigators Association Inc. (sub. 114, p. 4) applauded CN as a way of attacking local government ‘fat’. It considered that subjecting their operations to CN would help to maximise the use of their specialist and everyday plant and equipment, and avoid over-staffing to maintain its community involvement. CN was also viewed by some as a means for improving government operations more generally. The NCC summarised some of these in its submission (sub. 178, p. 31) when it noted that in-principle benefits accruing from CN included helping governments and the community gain better value for money in service provision, and providing a sharper focus on customer needs and competitive pricing.

Policy deficiencies

A number of participants, such as the Tweed Shire Council (sub. 40) and the Public Sector Research Centre (sub. 136), criticised the policy as deficient because it aims to remove artificial advantages, but fails to offset constraints imposed on government businesses (such as borrowing limits). These participants argued that there is no point in removing advantages if the artificial disadvantages faced by a government business are not also removed (eg terms and conditions of employment under which they are obliged to employ staff). The claim put to the Commission was that the policy was biased against government businesses unless they could net out their advantages and disadvantages.

CN, however, is not just about removing advantages. The policy requires that government businesses should not enjoy a ‘net competitive advantage’ simply as a result of their public sector ownership. Underpinning CN is the idea that the competitiveness of an enterprise should not be *improved or impaired* by virtue of its public sector ownership. This does not mean that advantages in one area should compensate for disadvantages elsewhere. Rather, for every business where CN is considered justified, every factor contributing to an ownership-related advantage *or disadvantage* should be identified and, to the extent practicable, the advantage or disadvantage eliminated (NCC 1997b, pp. 7–8).

In some cases, governments provide transitional arrangements in recognition that their businesses have specific disadvantages as a legacy of public ownership. The Commonwealth Government, for example, provides for reductions in rate of return requirements for agencies which have terms and conditions of employment more onerous than their private sector counterparts, at least until new enterprise agreements are negotiated.

Definition of ‘business’ and ‘significant’ business activity

Chief among the concerns expressed to the Commission has been that many local government activities should not be considered *business* activities and, thus, should not be subject to CN policy. The comment from the Cabonne Council is an example of this view:

... in rural areas many of the activities of local government eg halls, sporting grounds, caravan parks are provided as a service to the community and are not businesses as they are in metropolitan areas. (sub. 56)

In many cases, such concerns are unfounded. This is because a local scout hall or sporting ground, for example, would most likely fall into the category of a not-for-profit, non-business activity of government. The CPA specifically excludes these activities, and that position is endorsed in the policy statements of each State and Territory.

However, the approach taken by those governments in interpreting which activity qualifies for business status for the purpose of CN policy is not uniform. Government activities deemed to be businesses in some jurisdictions are not so deemed elsewhere.

Related to the concern that it is not appropriate to treat some council activities as ‘business’ activities is the view that, even where those activities are business in nature, they are not *significant* business activities. Accordingly, CN policy should not apply to them.

The Dorset Council (sub. 92), for example, was critical of the blanket approach by the Government of Tasmania, which deemed that all council water and sewerage services are significant business activities, and thus candidates for corporatisation — subject to a ‘public interest’ test. It noted that Dorset Water has been listed as a significant business even though the total expenditure over its ten water schemes is less than \$1 million. Similarly, attendees at the public meeting in Sorrell considered that none of the main services provided by the local council (roads, water, sewerage, waste management, childcare/youth services and cemeteries) should be viewed as significant for the purposes of CN.

Apart from their uniform treatment of PTEs and PFEs (which the CPA specifies as significant and which include water and sewerage activities), jurisdictions differ markedly on what other business activities they consider to be ‘significant’ at local government level. These differences stem directly from the lack of prescription in the CPA and the sovereign right it confers upon governments to implement CN in a manner appropriate to their jurisdiction. In doing so, the CPA acknowledges that a ‘one size fits all’ approach is not justified.

Participants pointed to these differences and claimed that the policy has led to inequities between jurisdictions. Tasmania's West North West Councils (sub. 45), for example, noted that the levels set for significant business activities in some States (eg Queensland), if applied in Tasmania, would result in there being no significant business activities in that State apart from PTEs and PFEs.

In Victoria, the Department of Infrastructure (responsible for local government) defines a significant council activity as including one where expenditure during the financial year exceeds 1 per cent of total operating expenditure or revenue from user charges generated by the business exceeds 1 per cent of council's total operating revenue. The Municipal Association of Victoria (sub. D276) criticised this approach as overly stringent, and noted that this definition is at odds with the approach taken by the Victorian Government's CN complaints unit. Such differences highlight the fact that, although implementation of CN is well advanced at local government level, the policy is still evolving and there are still important aspects yet to be finalised in some jurisdictions (sub. D276, pp. 3–4).

Some participants were critical also of the apparent lack of autonomy afforded local government in determining whether any of their business activities were significant for the purposes of CN policy. This criticism remains despite all relevant jurisdictions having consulted with local government in the development of their policy as it applied to local government (a requirement under the CPA), and despite most jurisdictions providing for councils themselves to assess how CN may apply and to which activities.

Community service obligations

Some criticisms of CN policy reflected the failure of efforts to publicise the policy and explain its implications. Most of the comments the Commission received about how CN policy deals with the provision of community service obligations (CSOs) fell into this category. Many participants expressed their concern that, in implementing full cost attribution and CN in pricing, local government will have to sacrifice CSOs. The South Gippsland Shire Council (sub. 80), for example, claimed that there is now increased emphasis on 'user pays' charging and, as a result, the cross-subsidies which funded CSOs are less likely to occur.

The CPA does not, however, require this outcome. The policy statements on implementation of CN of each jurisdiction make provision for the continuation of CSOs, albeit subject to the need to make explicit any subsidies paid to the business (for examples see box 8.2). How governments choose to treat CSOs once their existence and cost is made explicit is an important and separate issue. (A general discussion of how CSOs are treated under NCP reforms is in chapter 12.)

Box 8.2 Competitive neutrality and community service obligations provided by local government

The Competition Principles Agreement does not require the cessation or diminution of community service obligations in order to meet competitive neutrality principles. State governments have reiterated this position in their policy statements on the application of competitive neutrality to local government. For example:

The New South Wales Government's policy on the application of competitive neutrality to local government '... allows councils to subsidise businesses for whatever purpose. However, such subsidies [whether community service obligation subsidies or other subsidies] must be fully disclosed as an explicit transaction. They will also then be visible for the purposes of pricing the service.' (DoLG 1997, p. 28)

In Queensland, the policy is that 'Where competitive neutrality is applied, it will not interfere with the capacity of a local government to subsidise the provision of goods or services to particular groups; again provided that where a Community Service Obligation payment is made, the level of payment is readily identified in public accounts'. (Queensland Government 1996b, p. 19)

Tax equivalents and cost allocation

Other criticisms of CN policy and its implementation related to how specific elements of CN are applied to local government businesses. For example, on visits in Victoria, the Commission was told 'It doesn't make sense for the council to load payroll tax equivalents on to its bid when it is competing against small businesses which do not pay payroll tax'. In fact, the Victorian policy does not require the blanket loading of payroll tax on bids to achieve CN. Only where a council business unit has a payroll in excess of the tax-free threshold would payroll tax equivalents need to be wound into cost and price. (This threshold — \$515 000 — applies equally to public or private businesses.) In many local governments, business units would not have a payroll of sufficient size to qualify for the imposition of payroll tax.

A number of participants considered that CN policy put government businesses at a disadvantage, because it prevented them from pricing on a marginal cost basis or pursuing 'loss-leading' strategies as part of a legitimate business plan. Yet these practices are common among their private competitors. The Glenelg Shire (sub. D253) supplied a report on the experience of three councils in Victoria, which indicated that councils believed CN policy disadvantaged them in competing with private business. The report, for example, quoted the councils' views on the impact of CN as:

The rules prevent us from operating as a business, for example it is normal business practice to wear a loss on some jobs ... (and)

We have none of the flexibility of private businesses ... we can't loss lead ... (Ernst & O'Toole 1999, p. 7)

However, marginal-cost pricing and loss leading are both practices allowed under CN policy (CCNCO 1998a, 1998b). CN policy and pricing guidelines permit government businesses to cost — and hence price — on an avoidable (or marginal) cost basis. Moreover, loss making is allowed by activities, so long as the business achieves a commercial rate of return over the life of its business plan.

Compliance and implementation costs

A general concern related to the upfront costs incurred by local governments in complying with their CN obligations and how they would pay for them. Participants referred to costs like setting up appropriate accounting and costing systems; costs associated with benefit–cost assessments to determine whether the introduction of CN is appropriate; and costs associated with corporatisation where that is deemed appropriate. Some councils also questioned the value they derived from incurring those costs. Merriwa Shire Council, for example, stated:

A significant concern for the rural sector is the cost of implementation. To date [the CN part of] NCP has placed a burden on council resources without any significant benefit to date. (sub. 77, p. 4)

Not all councils considered compliance costs to be excessive. For example, South Gippsland Shire Council (sub. 80) held that complying with these (CN) requirements is not an onerous task.

Underpinning the principle of CN is the need to have effective costing systems (DoLG 1997, p. 5). As the Gold Coast Council (sub. 3) noted, a key issue for the council in implementing CN is trying to establish consistent accounting and asset valuation methodologies, including valuation of CSOs.

Good costing systems are a vital part of any successful business operation, and the move to improve local government management and financial systems was under way well before the introduction of CN. For example, in 1994, local governments in Western Australia were required to adopt full accrual accounting under AAS27 (WA Govt 1996, p. 14). The Devonport City Council in Tasmania (sub. 44, p. 3) noted that reforms in local government were in progress before the Hilmer report and were part of a worldwide change to a more business-oriented approach. The council drew the Commission's attention to reforms (such as the adoption of accrual accounting) which have delivered a considerable improvement in local government

accounting and accountability (sub. 44, p. 13). Similarly, the Council of the City of Grafton (sub. 104) noted that a major reform to New South Wales' local government was the *Local Government Act 1993*. That Act introduced a number of reforms (including new accounting standards) to increase the transparency and accountability of local government, and to encourage efficiency and effectiveness in service delivery.

Moreover, instituting improved accounting and costing systems in response to the demands of CN can deliver advantages which more than outweigh the associated costs. The Tasmanian Government, for example, noted how enthusiastically its local governments embraced CN as they realised:

... the advantages that CN could deliver in increasing the efficiency of council operations. This was demonstrated by the fact that 18 of the 29 councils decided to apply full cost attribution to all their business activities (rather than just those regarded as 'significant'). The majority of the remaining councils chose to apply full cost attribution to their public trading enterprises ... and road maintenance. (sub. 198, p. 22)

It should also be recognised that many of the costs associated with implementing CN are essentially one-off or short-term in nature (LGASA, trans., p. 13). On the other hand, the benefits derived from CN (such as the tendency for a more efficient provision of local government services) tend to be on-going or long-term in nature (LGASA, trans., p. 14).

A sub-set of participants' general concerns about implementation costs was the concern that, where corporatisation is required under CN policy, this can impose significant costs on local government. Some councils claimed these are costs which they are not well placed to meet as, in most cases, they receive no compensation for them. However, the move to corporatisation was under way before the CPA and it is unreasonable to lay all such costs at the door of CN.

As well, corporatisation is required only where the benefits outweigh these costs. The 'public interest' test should weed out any 'inappropriate' candidates for corporatisation if it works as intended. This, however, does not address concerns that local government may incur the costs while the benefits of its efforts accrue elsewhere. Nor does it blunt participants' criticisms of a lack of compensation for these costs.

Reimbursement for implementation costs

At August 1999, only the governments of Victoria, Queensland and Western Australia have chosen to provide their local governments with a share of competition payments. The NCC has noted this approach provides an incentive for

reform and assists with associated costs, such as conducting ‘public interest’ tests and reviews of businesses (NCC 1998a, p. 144).

Participants in other jurisdictions criticised the NCP agreements for not specifically providing for a share of those payments to reimburse local government for costs in implementing CN. The Cabonne Council, for example, noted that local government has been asked to meet the requirements of NCP yet, in New South Wales, councils have not received any of the competition payments made to the State Government. The council strongly believes local government should get a share of these payments (sub. 56, p. 5).

Such views echo the Hawker Committee’s finding that ‘It is of considerable concern to local government and others that there is not specific provision made in the agreement in relation to Competition Payment for them’ (Hawker Committee 1997a, p. 56). However, the reform agreements provide for State sovereignty in implementing the reforms and, thus, in choosing whether to share competition payments with their local governments. Those decisions are, however, taken within the context of State funding for local government and the appropriateness of those choices can only be determined in that context — a context beyond the scope of this report.

‘Public interest’ test

A common concern of participants was the apparent inability of the ‘public interest’ test to account fully for local consequences when assessing whether CN should be implemented for local government activities. (The issue of the application of the ‘public interest’ test more broadly to all NCP reforms is addressed in chapter 11.)

The CPA — clause 3(6) — clearly states that CN principles need not be applied where the benefits of implementation are outweighed by the costs. The agreement also provides an extensive (but not exclusive) list of matters which may be taken into account in that assessment. The list includes, for example, social welfare and equity considerations, regional development and employment. Governments do, therefore, possess the ability to implement NCP flexibly so that it remains consistent with the weighting placed by the community on particular social objectives (NCC 1996b, p. 2). As the Chamber of Commerce and Industry of WA stated:

Contrary to the impression given by some critics of competition policy, the public benefit tests applied by the various jurisdictions are amply broad and flexible to incorporate non-economic considerations. (sub. 183, p. 7)

The widespread concerns received by the Commission suggest that this flexibility to accommodate the interests of local government and rural communities is neither well understood nor utilised in the application of the ‘public interest’ test. The fact that jurisdictions have taken independent stances on interpreting the ‘public interest’ test and have little consistency in their documentation on how it should be applied has contributed to participants’ concerns.

Some of the criticisms of participants appear to arise because the scope and flexibility of the ‘public interest’ provisions of the reforms have not been publicised sufficiently. This conclusion found support from the Commonwealth Department of Transport and Regional Services, which noted:

Unfortunately, there is little detail available on these provisions, and in regional Australia there seems to be a lack of knowledge of the very existence of public interest provisions. (sub. 191, p. 4)

In Victoria, the Municipal Association of Victoria noted that there is still considerable confusion among councils as to the extent and parameters of CN policy and how to apply the ‘public interest’ test (sub. D276, p. 6).

Governments are, though, aware of the need for better education and guidance on the operation of the ‘public interest’ test, and taking steps to address this need. For example, the South Australian Government has, with this in mind, revised its Clause 7 Statement and guidelines for local government (sub. D298, p. 18). Results of efforts by governments to educate councils on CN policy and its implementation (such as those in cooperation with local government associations in South Australia (sub. D224) and Victoria (sub. 276)) indicate that progress is being made.

FINDING 8.1

Misperceptions about the scope and implementation of competitive neutrality, and in particular the application of the ‘public interest’ test, suggest that early efforts by governments to inform those affected by competitive neutrality were inadequate. Additional efforts by governments have gone some way to counter these lingering misperceptions in the public and private sectors, but continuing measures are still necessary.

8.6 Competitive tendering and contracting issues

Competitive tendering policies of State and Territory Governments (particularly with respect to their road contracts) and of local governments attracted considerable comment from participants. This attention stemmed from the potential for those

policies to affect the business operations of local governments and the viability of the communities they serve.

Concerns associated with CTC

While governments have undertaken CTC to improve the efficiency and effectiveness of their operations, many participants were concerned about its potential adverse effects on rural and remote communities. These included:

- a loss of employment and income within the region;
- a transfer out of the region of equipment, workers and their families;
- the erosion of service quality; and
- a reduction in the ability of local government to meet civil emergencies.

Associated with these was a concern that the CTC process or the ‘public interest’ provisions of the CPA were inadequate for accommodating preferences for local suppliers or for taking into account the adverse consequences of losing a contract to ‘outside’ suppliers. (In this regard, participants’ comments echo those concerns relating to CN.)

CTC does not necessarily mean, however, that ‘outsiders’ will win tenders. As the Northern Territory Government noted:

The move to outsourcing road construction and maintenance services was accompanied by concern that local employment would be adversely affected. While the day labour positions have gone, experience has shown that local companies have been established and have been successful in winning contracts for road work, thus maintaining a local employment base. (sub. 128, p. 2)

The Queensland Government (sub. 202) also emphasised that CTC is not synonymous with awarding contracts to non-locals. It stated that competitive tendering processes, based on value for money, could still allow local suppliers — whose tenders are superior because of local knowledge — to obtain contracts at a somewhat higher price than coastal competitors.

Additionally, how CTC is introduced can significantly improve the ability of in-house teams to win tenders, without compromising the potential benefits from its introduction. The NCC (sub. 178, p. 32), for example, noted that, prior to putting functions to a competitive tendering process, some public bodies in Queensland and Victoria provided training for their staff who undertook those functions. This gave the staff a better opportunity to win the work in competition with the private sector or other government suppliers.

The fear of losing tendered work to ‘outsiders’ (with the prospect of losing economic activity, local jobs and families, and a capacity to respond to emergencies like bushfires) has led some councils to give preference to local suppliers or require contractors to use local resources. Not all participants welcomed such a response. Canegrowers Burdekin, for instance, noted:

[Burdekin Shire] Council says it could contract services and inputs from outside the shire (eg Brisbane) at a lower cost but this would reduce employment and business activity in the shire ie. it considers net public benefit for the community is served by paying more to local suppliers. It is incongruous that growers are asked to bear the brunt of NCP reforms ... but they do not receive the benefits of competitive tendering by the Local Council through lower rates. (sub. 30, p. 2)

Some participants thought local preferences may run foul of the *Trade Practices Act 1974* (eg the Shire of Murray, sub. 71 and the ACRLF, sub. 192, and attendees at the Commission’s meetings in Lismore and Maitland). Participants suggested that further education (and possible transitional arrangements) was required in this area. The Industry Commission’s report on CTC considered this issue and concluded:

If local governments in rural and remote areas give preferences to local suppliers or require contractors to use local resources, that should be set down fully in the tender documentation; all tenders, including in-house bids, should identify separately the additional price for being required to use local resources; and when the contract is awarded, any additional cost due to a requirement to use local resources should be announced. (IC 1996a, p. 21)

A number of participants expressed concern that the ‘public interest’ test was not able to factor in potential adverse local effects at either the stage of deciding whether to implement CTC or the stage of deciding between competing local and ‘outside’ bidders.

With regard to the first of these, the NCC (sub. 178, p. 55) has noted that while CTC is not required by the NCP, it is one way of implementing CN, and the implications of such reform for local communities must be considered in assessing whether to pursue such reform. The ‘public interest’ test does allow regional employment effects to be taken into account.

With regard to the second, the NCC’s submission refers to its 1996 publication *Considering the Public Interest under the National Competition Policy*, where it stated that ‘public interest’ should encompass implications for local communities:

In considering the relative merits of in-house and external provision, it is appropriate to examine factors in addition to the relative cost of in-house and external provision. One consideration is the value of keeping workers employed in a local region. Another is the convenience of having people readily available to provide a service. (NCC 1996b)

The Shire of Yarra Ranges (sub. 182) gave an example of how this has worked. It let a road maintenance tender for each of the two regions in the shire. The initial evaluation awarded both contracts to an external bidder. Council then applied a ‘public interest’ test which considered the potential for lost skills and knowledge of the area — critical for emergency management and planning within the Shire. (The Shire is the leading council in emergency management for fire, floods and landslip.) As a result, the external bidder was awarded one region and the in-house council team awarded the other.

Similarly, the Northern Territory Government noted that while it has encouraged competitive tendering by councils, it had not imposed any requirement on councils in remote communities in respect of CN (sub. D299, p. 2). This approach is intended to avoid adverse social impacts in these communities.

Another concern of participants was that the use of CTC would inevitably be associated with a loss of quality in service provision. The NFF (sub. 144), for example, referred to the increased risk to quality, commenting that it was harder to control the actions of individual contractors than council employees. Anecdotal evidence from Mr R. Linger (sub. 100) cited the failure of compulsory competitive tendering in practice to deliver better quality for money.

Quality problems can arise if CTC is poorly *implemented*. But CTC *policy* is all about getting value for money — not just getting the job done at lowest cost. Experience across Australia suggests that a deterioration of quality from process-related failure is not intrinsic to CTC. That experience also suggests that proper application of good processes (such as two-envelope tendering systems where bids are assessed first against a specified quality hurdle, with only those meeting that test eligible to be assessed on the basis of price) can consistently deliver satisfactory quality (IC 1996a, p. 10).

CTC delivers net benefits

In fact, the widespread use of CTC and the trend for it to encompass new areas of services is testimony to its worth.

Information to this inquiry reaffirmed that CTC can provide benefits such as a greater focus on outputs and outcomes rather than inputs, encouraging suppliers to provide innovative solutions, cost savings in service delivery (which continue to accrue over time). These in turn allow scope for lower user charges, council rate relief and freeing up funds for councils to meet other local priorities. The Australian Capital Regional Leaders’ Forum (sub. 192, p. 8) stated that contracting and competitive tendering are the most common reforms implemented by councils in

pursuit of general efficiencies. The Local Government and Shires Associations of NSW (sub. 197, pp. 6–7) noted that these practices are being adopted increasingly by councils in New South Wales.

The Northern Territory Government (sub. 128, p. 2) drew attention to benefits available from CTC beyond just improving the efficiency and effectiveness of government service provision. It noted that, where some of its services (building repairs and maintenance) have been outsourced, this has resulted in a healthier and more competitive building trades industry. This has made skills available in the broader community which may not have been previously available — eg contracting of air conditioning repairs has meant that previous in-house Government expertise is transferred to the private sector and then becomes available to the wider community.

A sample of participants' comments about the gains to country and metropolitan councils from CTC is contained in box 8.3.

Box 8.3 Examples of participants' comments on gains from CTC

Participants at a roundtable meeting in Kununurra (Western Australia), referred to how a local council had made significant savings from contracting out. Its use had enabled the number of staff in parks and gardens to be reduced from over 50 to about 9. Most of those displaced picked up jobs with local contractors. As well, after contracting out the operation of the local airport, they noted that the shire is now making money on it.

The Bass Coast Shire Council (sub. 88) noted that the application of CTC in its operations has resulted in positive outcomes. Services are now better specified, monitored and managed and, as a result, they are more efficient and effective.

The Northern Territory Government (sub. 128, p. 13) considered that councils generally consider that the use of contractors has resulted in cost savings for the councils.

The NFF (sub. 144) noted the contribution CTC had made in helping to lower rates to the benefit of ratepayers, farmers and other businesses.

The NCC (sub. 178, p. 56) gave examples of significant capital and operating cost savings resulting from CTC, such as those achieved by the Noosa Council.

On the other hand, CTC is not without problems.

CTC may deter smaller bidders

Some participants were concerned that CTC may exclude smaller bidders — a category, which would include many local government and private sector contractors located in rural and remote areas. This may happen where the size and

duration of the bundle of tendered activities, or large performance bonds, effectively bar smaller businesses from competing. These concerns were focused primarily, but not exclusively, on CTC as it related to major roadworks.

In Western Australia, participants such as the Shire of Jerramungup (sub. 1) and the Shire of Yalgoo (sub. 98) noted that the aggregation of tenders by Main Roads has put the scale of the work beyond the capabilities of rural small businesses. The Shire of Yalgoo claimed that the size of the contract bundles and Main Roads' ten year contracting strategy for road maintenance mean that even though Yalgoo Shire enjoys a competitive advantage in road maintenance in their area (with all CN obligations met), it cannot compete. It noted:

Main Roads has tendered maintenance of its network on a very large parcel basis. It is estimated that each contract will be worth about \$200 million; this is well beyond the capacity of any shires or regional contractors. (sub. 98, p. 8)

The potential to lock out smaller contractors by aggregating tender packages on offer was also noted by the Civil Contractors Federation, Queensland Branch (transcript p. 640) as occurring in Queensland. The Association noted that this was probably being done to obtain efficiencies in the jobs involved.

This approach contrasts with that taken by the Northern Territory Government. In its submission, the Northern Territory Government recognised how critical the packaging of open competition tenders was for the involvement of locals. It stated

If small jobs that could be handled by locals are included in tenders that they have no chance of winning (such as where major equipment or expertise is required) then that work is lost to the locals. However, if the small jobs are bid separately (or combined into packages that are 'winnable' by locals) then the local firms can bid and stand a chance to win the work. ... The maintenance of local skills and expertise is essential for rural and remote communities in the Northern Territory. (sub. 128, pp. 2–3)

The Western Australian and Northern Territory approaches highlight some of the tradeoffs which governments face in applying CTC — whether to aim at minimising the administrative costs of CTC (by going big and relying on the prime contractor to determine local contracting, if any) or at directly facilitating the involvement of smaller contractors (by going small).

The issue of local government or smaller private contractors in rural or remote areas being disadvantaged by the tendering process was addressed specifically in the Queensland Government's submission. It noted that road construction and maintenance are particular examples where, in the absence of mitigating policies, open tendering would threaten the continued employment of local people. To address this concern, the Queensland Government has developed a CTC policy aimed at sustaining vulnerable rural communities (sub. 202, p. 6). In practice, this

can result in contracts for State Government roadworks being reserved for local council workforces. Against this, though, the Government noted that it must continually balance the need to obtain value-for-money results for taxpayers generally (p. 20).

This issue was also examined in the Industry Commission report into competitive tendering and contracting. That report concluded that agencies should determine contract size on a case-by-case basis, with reference to:

- the service and market characteristics (for example, economies of scale and scope);
- administrative or transactions costs (and whether the agency or an external contractor is best able to manage these costs); and
- the need to ensure effective competition (IC 1996a, p. 265).

The report concluded contract length should be determined with reference to the:

- need for contractors to recoup significant sunk costs;
- desirability of continuity of client–contractor relationships;
- possibility of fundamental policy changes affecting service provision; and
- need to ensure an effective level of competitive pressure (IC 1996a, p. 267).

Compulsory competitive tendering — a special case of CTC

The Victorian Government’s policy statement on applying NCP to local government identifies compliance with compulsory competitive tendering (CCT) as one of the key elements of applying NCP (NOLG 1998, p. 179). As noted above, this is discretionary policy of the State and is not required by NCP.

Victoria’s CCT legislation — passed in June 1994 — requires councils to market test (via the use of competitive tendering) at least 50 per cent of their total operating expenditure each year. This was introduced by setting targets of 20 per cent for 1994-95, 30 per cent for 1995-96 and 50 per cent for 1996-97. By 30 June 1997, the majority of councils had achieved CCT coverage in the 50 to 70 per cent range. Tendering programs for other councils showed that they would reach the 50 per cent target during 1997-98 (NOLG 1998).

The legislation allows each council to determine which services it will tender, although legislative and policy provisions effectively mean that councils must market test almost all parts of their operations (sub. 71, attach. 1, p. 11). As a consequence, the Municipal Association of Victoria (sub. 171, p. 17) noted that CN

— which applies to any service that is tendered by a Victorian council — will have a commensurately broader impact for Victorian councils.

CCT is one of a host of local government reforms — which include council amalgamations — introduced by the Victorian Government since 1993, with the aim of developing a culture of efficiency, competition and accountability in local government (Ernst *et al* 1998). As the CEO of Ballarat City Council is quoted as saying in the NCC submission, ‘the results have been varied, but predominantly positive’ (sub. 178, p. 57). At the Commission’s Bendigo hearings, the Glenelg Shire Council illustrated the benefits to be derived from CTC, noting that:

Our experience has been that ... where an internal business unit has applied for a contract on 97 per cent of times it's won.

... what we have got [from introducing CCT] is a far better understanding of what work we're trying to seek from business. ... We see big benefits from having to actually apply the rigour of these policies. It's certainly adding to the professionalism and efficiency of our industry. (trans., p. 533)

While CCT raises all the issues inherent in the application of CTC, it has one extra dimension. It is a legislation driven process, mandatory for councils. This brings with it some unique concerns.

At meetings in Victoria, the Commission received extensive comments critical of the demands CCT forced on councils, especially smaller (generally rural) councils. An example of this was the need for a purchaser/provider split where councils are not big enough to support the depth of personnel skills needed in each arm. This echoed earlier survey findings reported by Ernst *et al.*, which noted:

Very few of the case study councils were satisfied with the way the purchaser/provider split had been effected, but the split is causing the greatest problems for smaller local authorities. This is substantially because they have neither the numbers of staff, nor the recruiting capacity of metropolitan councils, needed to create a sufficient critical mass of expertise and skill on both sides of the purchaser/provider divide. (1998, p. 3)

The views of most participants were effectively summarised in a study provided by the Council for the Shire of Murray. That study concluded that the ‘one size fits all’ approach of CCT is deficient given the circumstances faced by many rural shires, namely:

- low population and rate base, combined with high infrastructure costs;
- an inadequate number (and in some cases a complete absence) of firms able or willing to compete; and
- the perilous state of the economic and social fabric of many small towns caused by a complex range of broader economic forces (sub. 71, attach. 1, p. 64).

Murrindindi Shire Council (sub. 5, p. 1) — a small rural shire — noted, for example, that for it the costs of implementing CCT (eg gearing up, training staff, advertising etc) had been significant at about \$100 000. But it has resulted in very little change, and any gains are marginal at best (eg 92 per cent of tenders attract only one bid and 88 per cent of previous suppliers were retained). Left to its own devices, it is unlikely that the council would have seen fit to expose as great a range of services to market testing.

While it is normally the prerogative of councils to take account of local circumstances in their decision to proceed to contracting or not, some participants suggested that this was denied under CCT. Mallee Family Care, for instance, noted that the (then) Office of Local Government refused to permit factoring of local employment and local economic issues into the tendering decisions (sub. 17, attach. 1, p. 17).

Participants in other States expressed concern that CCT might be (inappropriately) foisted upon them. The Murray Regional Development Board & Riverina Regional Development Board, for example, noted:

Some small communities have been devastated by the loss of council activities eg Tungamah in Victoria [as a result of the introduction of CCT]. These Victorian experiences are of concern to rural NSW, and on an industry basis are not favoured ... When plenty of options for competition are available CCT is very beneficial to a council, however when options are limited, as is the case in some parts of rural Victoria the results could be detrimental in the long term. (sub. 109, p.8)

Participants in other jurisdictions (eg the Local Government and Shires Associations of NSW, sub. 197) opposed the introduction of CCT for their local governments.

8.7 Impact of competitive neutrality on local government

In June 1997, the NCC noted slow progress in some jurisdictions in the application of CN to local government business activities (NCC 1998a, p. 50). Since then, jurisdictions have made good progress towards ‘on the ground’ reforms, and the June 1999 assessment of progress by the NCC indicated no cause for interrupting second tranche competition payments in this regard (NCC 1999b, p. 12).

Although the move to implement CN at local government level has accelerated, submissions and information from public hearings suggested that the impact of those reforms has been limited to date. Participants were unanimous that it is too soon to determine what will be the net outcome. The Townsville City Council

exemplified this view when it noted that implementation of CN is still under way, whereas the effects of those changes can only be assessed in the long term (trans., pp. 773–75).

The reforms have, though, had an early impact on local government water, sewerage and road operations and where their business activities are large in scale. (Often these describe the same businesses.)

In Queensland, in particular, water and sewerage operations are large activities for a number of local governments. Such operations have been to the fore in the reform schedule, and have thus experienced the full and early effects of CN reform via corporatisation. However, while the implementation of reforms to water and sewerage operations is well advanced, the Queensland Government (sub. 202) noted that there is little quantitative evidence or definitive assessment of the overall impact at this point. It also noted (p. 4) that the smaller regional, rural and remote local governments are not likely to have any business activities of sufficient scale to qualify as significant and, thus, subject to CN.

Although local governments in other jurisdictions provided evidence of CN being applied to their water and sewerage activities, the consequences for their local communities are also not yet apparent.

The business activities of many local governments throughout Australia are too small to fall under the CN policy. In Queensland, for example, the government has deemed that activities with an annual expenditure of \$5 million or less (or \$7.5 million for water and sewerage operations) fall below the ‘significant’ business activity threshold for the purposes of applying CN. For the Mount Isa Council, for example, which has no business activities above these thresholds, CN has little relevance other than for in-house bids for competitive tenders.

Similarly, Western Australian Government representatives told the Commission that ‘CN and local governments is not much of an issue, because [local governments activities] are much smaller here’. There are only around 40 local government business activities in Western Australia, and fewer than 20 local governments run those activities. In addition, under the Western Australian Local Government Act, councils cannot form corporations.

Information from South Australia also suggests that, at the local government level, there have been only limited effects to date from implementing CN. The Local Government Association of South Australia has told the Commission that local government does not do much business. Although many councils undertake their own local roadworks, this is not captured by CN because those works are funded through rates rather than on a user pays basis. (However, the Commission notes that

where a council business bids for a competitively tendered project, it must assess whether CN principles should apply to that activity.)

In some areas, the impact of CN has been cushioned because elements of the CN ‘package’ were already in place. In New South Wales, for example, applying CN will have less effect than expected because business enterprises of local government are already subject to State Government taxes and charges — including payroll tax, land tax and stamp duties (Local Government and Shires Associations of NSW, sub. 197, p. 5).

Moreover, the fear that CN will force councils into a new pursuit of efficiencies and possible workforce reductions implies that they have not pursued this energetically in the past. But participants (eg Greater Taree City Council, (sub. 203), the Council for the Shire of Murray (sub. 71) and Tamworth City Council (trans., p. 117)) noted that local government in New South Wales and Victoria has been subject to ‘rate pegging’ for many years. This has placed pressure on councils to look for efficiencies over a long period.

In fact, a number of local governments claimed that the introduction of CN offers no immediate or future threat to them, because their operations are already efficient. This was the case with the Colac Otway Shire, which told the Commission that CN is no problem for it. The Shire applies CN to its contracting businesses and still wins tenders. The Shire of Yalgoo in Western Australia (sub. 98) expressed the same sentiments. In road building and maintenance, even after accounting for CN, the shire still enjoys a competitive advantage.

A significant number of participants considered that CN would assist councils in their drive to more efficient and effective service delivery. At one of the Commission’s meetings in Townsville, for example, an attendee noted the beneficial impact of CN in showing councils where they were inefficient — which was the first step to getting more value out of each dollar of council expenditure. At a meeting in Moree, the Commission was told that, while the establishment of the water and sewerage operations of the Moree Plains Shire Council as business units had involved initial set-up costs, the council was beginning to see management benefits from the change.

The Merriwa Shire Council (sub. 77) stated that a positive outcome is increased awareness of the need for councils to examine their work practices and accounting systems. Similarly, the Devonport City Council (sub. 44) noted that full cost attribution had helped improve the efficiency and management of council services.

Whether such gains translate into benefits for local council ratepayers will depend partly on the extent to which council services are funded from a local rate base

rather than grants from, say, State governments. Benefits from efficiency gains may accrue entirely to local ratepayers (via rate reductions or more services for any given rate dollar) if services are totally funded from a rate base. Otherwise, a share of the savings may accrue to the State government in the form of a reduction in the funding required of it to support any given level of services.

The application of CN was seen, however, as having an adverse effect on some rural communities when it was applied to councils' road operations. Even where council road operations may not qualify as a business (as in South Australia) or a significant business (as in Queensland, where construction and maintenance of roads under council control are deemed not to be significant business activities), CN policy is applicable when councils bid for competitive tenders. In this context, some participants claimed that because council road activities were so important for the council and local workforce in rural areas, the application of CN has (and will have) a significant adverse effect on local economies. The Glenelg Shire (sub. D253) provided an indication of how important CN may be in this regard. It submitted a report on the experience of three Victorian councils which claimed that fulfilling the provisions of CN added 6–10 per cent to the cost of those councils' in-house bids.

A widely held view of the future impact of CN on local government was that its introduction may mean that council business (especially for road contracts) will tend to lose out to private businesses within or 'outside' the local government area. If these businesses are from outside the council area, this was seen as likely to compound the loss of economic activity and employment that some areas are already experiencing. The Atherton Chamber of Commerce (sub. 25), for example, claimed that competition policy has forced smaller shires to tender out projects, resulting in tenders being won by large companies from outside the area. The Chamber said that these companies move men and equipment on and off jobs very quickly and take money out of the local economy. Local contractors then find themselves with only minor works to do and have to dispense with their local workforce.

Such views attribute entirely to CN the adverse consequences which are arguably more the result of the decision to put to tender work performed by councils. As the Queensland Government noted:

... NCP does not require governments to outsource their work. Where jurisdictions have opted to call tenders for all road works, this has been a deliberate policy decision on the part of the jurisdiction in question, rather than an NCP-related outcome. (sub. D302, p. 9)

Some participants considered that a loss of local capacity — eg in personnel and equipment to do road works — would also mean they could then be 'held to ransom' further down the track. This view reflects the small scale of markets in

country Australia compared with metropolitan Australia, and a belief that the Trade Practices Act is ineffective in curbing abuses of market power.

To the extent that fears of a loss of local capacity are warranted, their origin lies more with the decision to market test council activities, rather than with the implementation of CN.

A number of participants claimed an impact of implementing CN would be the loss of CSOs to their communities. However, as noted in section 8.5, neither NCP reforms generally nor CN in particular call for the cessation or diminution of CSOs. (The issue of how NCP reforms — including CN — may affect CSOs is discussed in chapter 12.)

The NCC (sub. 178, p. 55) noted that, while the application of CN can pose some potential costs for rural and regional communities, it is important not to lose sight of the potential benefits. An outcome of such reforms is likely to be cost savings in service delivery, in turn providing scope for reduced user charges, rate relief and a greater pool of funds for investment and other local priorities — including the delivery of CSOs.

Different effects on country and metropolitan Australia

Evidence from submissions on the differential impact of CN reforms on country and metropolitan local governments is scarce. This is mainly because implementation of these reforms is relatively recent.

Because CN applies only to certain business activities of government, its regional impacts will depend on whether local governments conduct any business activities subject to CN. Moreover, how important those impacts are will depend on the share of total council activities represented by those business activities.

Information provided to the Commission suggested that the business activities of local government in country Australia clearly differ from those of metropolitan councils in two main areas — the provision of water and sewerage and the provision of roadworks.

In New South Wales, Queensland and Tasmania, local government outside the capital cities is generally responsible for the provision of water and sewerage. In the capital cities of those three States, and across all other States and Territories, the provision of water and sewerage is the responsibility of the State or Territory government rather than local government. As the provision of water and sewerage is deemed a significant business activity, the non-metropolitan local governments in

those three States are to that extent subject to CN effects not experienced by their capital city counterparts, nor by their local government equivalents in other States.

Roadworks are another area where participants indicated that councils in country Australia are likely to be more affected by CN than their city counterparts. This is because road-related *business* activities generally constitute a larger share of rural councils' total activities than of councils in capital cities. Participants also indicated that these road-related activities are of sufficient importance (especially in remote areas) that they would make it likely that rural councils would have a greater proportion of their total activities and workforce in business activities subject to CN than would metropolitan councils.

Victoria is an exception to this tendency for local governments in country Australia to have a greater share of their total activities subject to CN than their city counterparts. In Victoria, CN applies more widely to all council activities because the Government of Victoria has introduced compulsory competitive tendering — which is subject to CN — for *all* local governments. In addition, the definition of what constitutes a significant business activity in that State (applied by the Victorian Department of Infrastructure) has the potential to expand significantly the coverage of CN beyond that commonly found in other jurisdictions.

With regard to the incidence of CTC, information provided on CTC has essentially been ancillary to this inquiry's main focus — that is, the impact of NCP reforms. The Commission received only a sketchy view of the impact of CTC on country and city Australia. Moreover, while many submissions drew attention to obvious costs associated with CTC, the benefits were largely unchampioned (reflecting their less visible nature).

Current evidence though, suggests that the vast majority of Australian councils use CTC in some form. While aggregate expenditure data on CTC are not available, a likely level would be over 20 per cent of total council expenditure (IC 1996a, p. 63). However, while CTC is used extensively at local government level, its use varies substantially between individual councils.

The Commission has insufficient information to identify the extent to which the share of total council activities subject to CN differs between country and metropolitan councils. Accordingly, the extent of any different incidence of CN and its impact remains unclear.

The significance of any impact arising from CN for particular geographic areas will also be influenced by the relative importance of council business activities in the local economy. The Queensland Government, for example, noted:

Local governments in rural and remote areas play a significant role in local community development through employment creation and contributions to the continuing viability of communities. In remote areas, it is not unusual for the local government to underpin economically and socially an entire town or shire. (sub. 202, p. 5)

Submissions also referred to the different nature of the economies operating in rural and city Australia as a reason for believing that the impact of CN will result in a differential incidence of *consequences*. This issue of how the different nature of ‘country’ and metropolitan economies may affect the adjustment pressures facing Australians as a result of NCP reforms more generally is discussed in chapter 13.

In summary, significant implementation costs have been incurred by some councils (particularly those with large water businesses). It appears the costs are generally incurred early and are largely one-off in nature, while the benefits of more efficient provision of council services are likely to manifest themselves in the longer term and be on-going. However, it is too early to determine with any certainty the impact of CN on local government, especially as implementation of the policy is still evolving.

9 Other reforms

Legislation reviews as part of National Competition Policy (NCP) have led to a relaxation of restrictions governing retail trading arrangements and some professions. These more liberal trading arrangements have benefited consumers, but have also weakened the competitive position of some businesses. Concerns about the potential for future legislation reviews to contribute to the expansion of national retail chains in country Australia highlight the need for integrity in the legislation assessment process and in the use of the 'public interest' test.

Access provisions for the use of essential infrastructure (such as rail and power lines) could impede investment, to the detriment of regional development. Other reforms and competitive pressures (not within the ambit of NCP) are affecting the price of petrol and the operations of banks in country Australia.

9.1 Introduction

The impact of legislation reviews on the anti-competitive arrangements supporting statutory marketing of agricultural commodities was examined in chapter 7. This chapter examines the impact of legislation reviews of the anti-competitive arrangements governing retail trading and the conduct of some professions. It also examines the new arrangements that were introduced under NCP to provide access to essential infrastructure facilities.

Recent developments in markets in country Australia for petrol retailing and bank services, although mainly subject to pressures other than NCP reforms, are also examined in view of the concerns raised by participants.

9.2 NCP-related reforms

Reviews of legislation governing retail trading

While the past decade has seen considerable deregulation of retail trading, it is still subject to significant regulation throughout Australia. Much of this regulation is subject to examination under NCP legislation reviews.

Some participants supported past deregulation and any prospective deregulation of retail trading. Others expressed concerns that a review of retail trading arrangements would lead to further deregulation which would disadvantage rural communities. These concerns (discussed below) related to the possible relaxation or removal of regulations restricting retail trading hours and those restricting ‘cross-selling’ (whereby certain retailers are restricted from selling specific goods).

Retail trading hours

Legislation which restricts trading hours (and hence consumer choice on when to shop) has varied objectives. These include religious considerations and attempts to protect retail employees from work outside ‘normal’ hours. Provision of a form of assistance to small retailers has also been a factor.

At present, restrictions on general retail trading hours vary across and within jurisdictions (see table 9.1). There are no restrictions on trading hours in Victoria, the ACT and the Northern Territory, or in Western Australia above the 26th parallel. Restrictions on trading hours apply elsewhere.

Specialist retailers — such as hairdressers, electrical stores, hardware stores, motor vehicle spare parts retailers and liquor stores — are subject to different restrictions. Jurisdictions which restrict general trading hours generally exempt specialised retailers. For example, in Tasmania, retailers of motor vehicle parts, hairdressers, food shops and liquor outlets are exempt from restrictions on general trading hours. Similarly, the Northern Territory has no restrictions on trading hours of certain food stores, florists, hairdressers and tobacconists, although liquor may only be sold during permitted hours, for reasons of public health and community attitudes (sub. D303, p. 3).

Table 9.1 Trading hour restrictions for general retail stores, January 1999

<i>Jurisdiction</i>	<i>Monday to Friday</i>	<i>Saturday</i>	<i>Sunday</i>
New South Wales	no restrictions	no restrictions	10.00am to 4.00pm (application required)
Victoria	no restrictions	no restrictions	no restrictions
Queensland ^a	8.00am to 9.00pm	8.00am to 5.00pm	Brisbane CBD, Gold Coast, Sunshine Coast 10.30am to 4.00pm Cairns 1.00pm to 8.00pm Townsville CBD 8.30am to 1.00pm no trading outside these areas
South Australia	Adelaide CBD 6.00pm closing Monday to Thursday 9.00pm closing Friday Adelaide Suburbs and Country 6.00pm closing Monday, Wednesday and Friday 9.00pm closing Thursday	Adelaide CBD 5.00pm closing Adelaide Suburbs and Country 5.00pm closing	Adelaide CBD 11.00am to 5.00pm Adelaide Suburbs and Country no trading Exempt areas (no regulation) Iron Triangle, Victor Harbour, Naracoorte, Kadina, Murray Bridge, Penola
Western Australia ^a	8.00am to 6.00pm Thursday 8.00am to 9.00pm Perth and Fremantle tourism precincts 8.00am to 7.00pm and to 9.00pm on Thursdays	8.00am to 5.00pm	no trading outside tourism precincts
Tasmania	Monday to Wednesday 8.00am to 6.00pm and to 9.00pm Thursday and Friday	8.00am to 6.00pm	no general retail trading
Northern Territory	no restrictions	no restrictions	no restrictions
ACT	no restrictions	no restrictions	no restrictions

^a Stores employing fewer than 20 employees in the store at any one time are exempt from Sunday restrictions. ^b There are no restrictions on trading above the 26th parallel.

Source: Australian Retailers Association (1999).

Background to deregulation

The relaxation of restrictions on shop trading hours has developed progressively over time. For example, Thursday or Friday late night trading and Saturday

afternoon trading were permitted in most jurisdictions well before NCP took effect. Community pressure and changing consumer preferences have been the key factors behind the extension in trading hours, although NCP is likely to have facilitated the more recent changes.

A number of social and demographic factors — such as an increase in the number of dual income households, more flexible and longer hours worked per week by many in the labour force — have increased community pressures for longer shopping hours. For example, Woolworths said:

Consumers are also moving away from the more traditional working hours to a variety of working hours. Hence, consumer demand in relation to shop trading hours is also changing. (sub. 213, p. 24)

Research undertaken by the Australian Centre for Industrial Relations Research and Training found that just over half of all full-time employees now regularly work more than 40 hours per week, compared with only around a third in 1979. A third of these workers now regularly work more than 49 hours per week, compared with only 19 per cent in 1978 (Victorian Government 1998). These changes have increased demand for access to shops outside normal working hours.

Moves to restrict trading hours are no longer widely supported in the community. For instance, the ACT conducted a trial to restrict trading hours in town centre supermarkets in an effort to assist smaller retailers in local shopping centres. This trial was abandoned after studies found that consumers' shopping habits had changed little and there was a lack of community support for the restrictions. In ending the trial in 1997, the ACT Minister for the Environment, Land and Planning, Gary Humphries, MLA, said:

The Government has made an effort to try and help local businesses, but our detailed, independent assessment of that measure shows it is without broad community support and has not contributed to significant improvements for small shops. (Humphries 1997, p. 1)

The shift from 'corner' stores and smaller shopping centres to large shopping malls has been a feature of life in country and metropolitan centres for many years. In country Australia, improvements in roads and more reliable, comfortable and affordable motor vehicles have made larger provincial centres more accessible to people in smaller outlying communities. These larger centres have the populations both in the town and in the catchment area to support large retail establishments. As these larger centres also have the critical mass to support facilities such as cinemas and fast food outlets, they are often the destination for a family outing for those living in smaller communities. Because of the continuing movement of population away from some smaller communities, it is likely that small retailers in these locations would have declined even if trading hours had not been deregulated.

Participants' concerns

Many participants saw reviews of retail legislation as having the potential to adversely affect small retailers and small communities in country Australia if it resulted in a deregulation of trading hours. Participants had two key concerns:

- extended trading hours would favour large retailers at the expense of smaller businesses *within* communities — a concern also prevalent in metropolitan areas. (Certainly, such a change is seen by larger retailers as allowing them to use their facilities more efficiently in meeting consumer demand);
- more liberal trading hours would favour larger provincial towns — which have banking facilities, large retailers and fast food outlets — at the expense of outlying smaller communities. This was seen as likely to encourage the transfer of income away from small towns and lead to the closure of small specialist retailers such as butchers and bakers. This, in turn, was seen as leading to fewer jobs and, ultimately, to population decline.

The National Association of Retail Grocers of Australia (NARGA) said:

... any extension of retail trading hours does most definitely have an adverse attrition effect on small business, particularly on the edge of rural and regional areas, as was effectively highlighted in the recent Federal Government report on microbusinesses entitled *Under the Microscope* at page 70:

Too often microbusinesses suffer cost disadvantages through extended trading hours. Extended trading hours dilute business activities during core hours and reduces turnover, market share and profitability of small business. (sub. 139, p. 35)

Similarly, the Gordonvale Chamber of Commerce said the extension of trading hours had:

... seen the demise of the small businesses such as the butcher, delicatessen and green grocer — look at the local shopping centres — these small businesses do not exist. (sub. 126, p. 4)

The National Party of Australia Women's Federal Council emphasised the effect that deregulation could have on the continued existence of small retailers located in small towns:

Our members are also witness to the fall away of retail commerce in small towns following trading hours deregulation which sent customers to the bigger urban centres and away from their local community. In both instances, it is the smaller traders who lose — not from any inefficiency but because it is impossible to match the capital, advertising and price cutting wars engaged in by the mega-retailers. (sub. 130, p. 3)

Another concern expressed by some participants is that deregulation will lead to significant job losses. In this context, NARGA contended that, for every extra job

with major retailers, there is a corresponding decrease in employment by small retailers of 1.7 jobs. (If true, this would imply a considerable increase in labour productivity in retailing). In addition, some considered that the jobs created in large retail chains are often of a part-time or casual nature and come at the expense of full-time employment in smaller retail businesses. For example, NARGA said:

Full time employment is sacrificed for part-time and/or casual work ... (sub. 139, p. 36)

Effects of deregulation

The available evidence suggests that, overall, retail trade and employment has not declined and has actually increased in jurisdictions where trading hours have been deregulated.

Modelling analysis conducted soon after trading hours were deregulated in Victoria suggested that the deregulation would boost demand for retail goods by 0.6 per cent, raise retail employment around 2 per cent and generate net benefits to consumers of around \$65 per person per year (Brooker and King 1997).

Aggregate data on key retail indicators also strongly suggest that deregulation has delivered net benefits. Coles (sub. D221), for example, presented data on retail sales, floor space and jobs for the years before and after deregulation which illustrated the positive impact likely to have resulted from deregulation.

The Victorian Government reached the same general conclusion in a case study of shop trading hours reform contained in its submission to the Senate Select Committee on the Socio-Economic Consequences of the NCP. It noted that:

ABS retail figures for the 1990s indicate that, after lagging the rest of Australia from 1991 to 1996, retail sales in Victoria since deregulation in December 1996 have grown strongly, faster than any other State and at around twice the rate than the rest of Australia. The pick-up in Victorian retail trade growth occurred at virtually the same time as the shop trading reforms were implemented. ... While there are a number of factors that affect retail trade, the strong growth experienced in Victoria since December 1996 would suggest that the 1996 reforms have had a strong positive influence. (Victorian Government 1998, p. 17)

Submissions from Coles and Woolworths provided specific examples of how they responded after shopping hours were deregulated in Victoria. Coles Supermarkets (sub. 97) employed an additional 2000 staff in Victoria over the following twelve months to meet the additional demands from longer trading hours. Woolworths (sub. 213) also said it had employed an additional 2000 staff since the deregulation of trading hours. Such gains, however, need to be considered in the context of employment losses by small retailers.

The Tasmanian Independent Wholesalers (sub. D254) cautioned that a selective use of statistics can paint too rosy a picture of the post-deregulation employment consequences. The difficulty in drawing comparisons between current and past employment figures was acknowledged in the Victorian Government submission to the Senate Committee. Despite that, it considered that deregulation had contributed to increased retail employment, and noted:

... an increase in the trend level of Victorian retail employment from around 240 000–245 000 to around 250 000–255 000 [for the two years to May 1998]. In contrast to growing Victorian retail employment, during the two years to May 1998, Australia-wide retail employment fell by 1 per cent (New South Wales retail employment fell by 7 per cent over the same period). Victorian supermarkets in particular have employed more staff, in order to cover the extended trading hours. (Victorian Government 1998, p. 17)

Participants' claims that such changes have come at the expense of full-time jobs being sacrificed for part-time or casual jobs are difficult to sustain. There have indeed been changes in the use of part-time and casual labour by retailers in recent years. For example, Woolworths' part-time employee numbers increased strongly between 1993 and 1998, although the number of full-time employees also increased significantly. There was also a trend to increase the number of staff employed on a permanent basis. For example, the proportion of total hours worked by Woolworths' casual employees in Victoria declined from 50 per cent in 1993 to a current figure of 18 per cent and, in New South Wales, from around 50 to 30 per cent over the same period (Woolworths, sub. 213). Coles Supermarkets also identified a shift from casual labour:

Over the past four years Coles has moved away from the traditionally heavy casual component of our supermarket workforce, and increased our reliance on full time and permanent part time employees. The various enterprise agreements reached over this period with the Shop Distributive and Allied Employees Association (SDA) allowed Coles to improve its customer service whilst improving permanency, job security, and career opportunities for employees. (sub. 97, p. 10)

These trends were thus apparent well before deregulation of trading hours and occurred in jurisdictions where trading hours are still restricted.

From a consumer perspective also, it appears that deregulation has given rise to considerable benefits. The removal of regulations on retail trading hours has increased consumer choice and removed the costs imposed on consumers which resulted from limiting where and when they can shop.

The result of a referendum in 1998 in Bendigo (Victoria) following opposition to the introduction of Sunday trading provides unambiguous evidence of consumer preferences for deregulation. Of the 72.5 per cent of eligible voters who participated

in the non-compulsory referendum (conducted by the Electoral Commission), 77 per cent voted to maintain Sunday trading (City of Greater Bendigo, sub. D231).

Submissions and information from public hearings (eg the City of Greater Bendigo, Sandhurst Trustees Ltd, Bendigo Trust, Visitors Information Centre Bendigo and Greg McRae Fine Furniture) provide clear evidence that, over a year later, such deregulation has been of overwhelming net benefit to business and employment in the Bendigo community.

While some participants in country Australia pointed to costs associated with deregulation, restrictions on trading hours also impose costs on residents in remote areas of country Australia. The Shire of Yalgoo said:

Many small communities in the WA hinterland are at a considerable distance from the nearest city. The restricted trading hours imposed in WA work to the disadvantage for people from remote communities because, on their occasional excursions to the city, it limits the amount of business that can be achieved in a day. This often necessitates an overnight stay and adds to the cost of doing business. (sub. 98, p. 6)

In a similar vein, the Country Women's Association of NSW noted that:

Deregulation of retail trading hours has been of benefit to many rural communities, although some small retailers may have been disadvantaged. We feel the majority of Australians have benefited from the introduction of extended hours of retail trading, these hours also particularly benefit part-time workers and shift workers. (sub. D251, p. 4)

In short, deregulated retail trading hours appear to have delivered benefits to consumers in terms of convenience, range of goods and price. At the same time, evidence to date suggests that deregulation has had positive net effects on retail trade and employment. Where community views have been canvassed comprehensively, there appears to be strong community support for such change.

FINDING 9.1

Changing social patterns (such as more flexible working hours, the increase of women in the workforce and single parent households) have contributed to decisions by governments to make shopping hours more flexible. These more flexible retail trading hours have weakened the competitiveness of some retailers. At the same time, they have been of net benefit to consumers and appear to have increased employment, including in country Australia.

Other retail trading restrictions

Legislation restricting the sale of some goods and services to certain types of retailers and restricting the operations of specific retailing is also subject to the NCP legislation review process. Liquor outlets and pharmacies currently operate under such legislation. This legislation, much of which is yet to be reviewed, is often based on social objectives such as controlling the distribution of potentially dangerous drugs or limiting the social costs of alcohol consumption.

All States and Territories have reviewed, or propose to review, the legislation controlling the retail sale of liquor. In Queensland, Victoria and Tasmania, the sale of take-away liquor has been restricted to hotels and associated licensed premises. Other retail outlets in those jurisdictions, such as supermarkets and convenience stores, are not permitted to sell liquor (NCC 1998a).

Pharmacies are regulated at present under State Pharmacy Acts which confine ownership to qualified pharmacists and restrict the number of pharmacies that a pharmacist can own. Furthermore, these Acts establish Pharmacy Boards to regulate the standards required of pharmacists for registration and to control their number. In the Northern Territory, however, pharmacies are not required to be owned by pharmacists.

The Pharmacy Guild of Australia (sub. 190) set out what it sees as the benefits of restricting the ownership of chemist shops to pharmacists. These include: contributing to safe pharmaceutical use; economical advice on and treatment of minor ailments; the support of health programs; and assisting in lowering the price of pharmaceuticals. In addition, the Pharmacy Guild pointed to the important role played by the local pharmacist in country Australia in providing advice and treating minor ailments where there is a shortage of doctors.

Under Commonwealth legislation, the Australian Community Pharmacy Authority authorises where new pharmacies are established. It generally does not approve establishing a new pharmacy within two kilometres of an existing pharmacy. The Commonwealth, States and Territories agreed to a national review of pharmacy legislation — to be completed by the end of 1999. In May 1999, the Premier of South Australia wrote to the Prime Minister, expressing concern that the independent chair proposed for the review was an ex-pharmacist and had previously been employed in the pharmaceutical industry. Although the Prime Minister acknowledged that concern, the appointment was confirmed (sub. D298, p. 5).

Newsagents in New South Wales, the ACT and Victoria are not regulated by specific legislation and are not subject to the legislative review process of the NCP. They have an authorisation under the Trade Practices Act from the Australian

Competition and Consumer Commission (ACCC) to maintain restrictive arrangements in the distribution of newspapers and magazines and the home delivery of newspapers. Under these arrangements, publishers grant newsagents 'sole' rights in a specified area to distribute magazines and newspapers to other retail outlets and to provide home delivery. A number of public benefits are put forward for these restrictions, such as providing opportunities for small business.

In November 1998, the Australian Competition Tribunal granted further authorisations under the Trade Practices Act to allow newsagents and publishers to continue these anti-competitive arrangements. The Tribunal authorised continuation of the restrictive arrangements for magazine distribution until 1 July 1999, for the distribution of newspapers until 1 February 2000 and for the home delivery of newspapers until 1 February 2001 (Australian Competition Tribunal 1998). While the Tribunal considered that these arrangements should not continue past these dates, further authorisations or amendments to the legislation could be sought.

There was a general concern that the loss of restrictions on 'cross-selling' through the legislation review process or the removal of anti-competitive authorisations would reduce the profitability of small retailers by allowing others (particularly supermarkets) to sell goods which were previously reserved for small retailers. As Caneland Pharmacy said:

Supermarkets want to own and operate pharmacies. Woolworths has recently said as much publicly. Their primary interest is — and must be — in sales, market share and profits. (sub. 9, p. 1)

A number of participants were concerned that if deregulation followed the legislation review process, it would have adverse impacts on the rural communities where these businesses, particularly newsagents and pharmacies, provided a range of other services. The National Party of Australia Women's Federal Council said:

Newsagents often run a variety of services including postal from their rural outlets. The loss of an enterprise such as this hurts small towns disproportionately.

Like newsagents and hotels, the local pharmacy is a key small town business providing a raft of services. Such businesses are also going to play a important roles in the delivery of more services in the future, such as those envisioned by the rural telecentres program, which aims to restore electronic services, like banking and Medicare Easyclaim to country Australia. (sub. 130, p. 4)

The concerns that small towns may lose the additional services provided by the restrictions on cross-selling are based on the apprehension that deregulation is inevitable. This is not, though, an inevitable outcome. The legislation review process is designed to take into account and weigh the potential benefits and costs from removing such restrictions on a case-by-case basis.

The legislation review provisions of NCP allow for the benefits to the community of restricting competition to be considered against the costs of such restrictions. To the extent that the benefits from these restrictions exceed their costs, restrictions on competition could be retained.

Expansion of retailing chains in country Australia

During the inquiry, the Commission heard concerns from participants about the expansion of national retail chains into country Australia and the concentration of their market share. These concerns were instrumental in the establishment of a Commonwealth Parliament Joint Select Committee on the Retailing Sector to look into the matter.

Some participants feared that the national chains could be so successful in attracting customers that few competitors would remain. The chains could then use their market power to increase prices, thus reducing the benefits to consumers. Some argued that, if a new competitor came into the market, the national chain store would use predatory pricing to oust it.

The Commission notes though that retailing is highly competitive. Despite the high levels of concentration in Australian retailing, profit margins are lower than elsewhere; according to Coles, they are 3.4 per cent in Australia compared with 4 per cent in the UK and 5–6 per cent in the US (sub. D221, p. 9). If there are barriers to entry, low profit margins could imply inefficiencies rather than be an indication of competitiveness, but according to Access Economics:

... concentration itself is not the proper measure of market efficiency. A reduction in the number of competitors in a market does not automatically mean that the market has become less competitive. ... Retailing has few inherent barriers to entry at the level of individual products, and while the deterrents to entry are stronger on broader criteria, retailing is more open to new entrants, including from overseas, than other industries. (sub. D221, s. 4)

In addition, the Industry Commission has previously found that:

... during the first half of the 1990s ... food retailing as a whole was only marginally more profitable than retailing generally. Moreover, during 1993-94 and 1994-95, against most profitability measures, small and medium food retailing enterprises — those employing fewer than 200 people and with assets of less than \$200 million — outperformed larger enterprises in the sector. This is seemingly at odds with the view that large food retailers are exercising significant market power. (IC 1997d)

Nonetheless, NARGA saw increasing concentration in country retail grocery markets as contrary to the national interest and ‘anti rural and regional communities’ (sub. 8, p. 1). Similarly, Susan Davies, MP, said:

Wonthaggi's supermarket prices are relatively cheap. But should Safeway achieve complete domination within the district, competition will be reduced, not enhanced. (sub. 87, p. 8)

There is a common sentiment that major corporations, whether multi-national or 'multi-regional', take substantial revenue from, and contribute little to the places where they do business. Yet much of the income earned by the corporations flows back to the local community in the form of wages, investment and indirectly in the form of taxes.

The retail industry is a labour-intensive service industry, and as such, wages represent a substantial proportion of expenditure, whether the store is owned by a national chain or is independent. Two of the three major chains have reported a large expansion in employment in country areas along with the expansion of their network.

Woolworths claimed to support local suppliers of their products and to use local contractors when investing in regional supermarkets (sub. 213, p. 73), and the investment program of both of the major retail chains has been quite large in country areas. For instance, between 1993 and 1998, 33 new Woolworths stores were built in country areas of Australia, involving estimated expenditure of more than \$200 million with local contractors.

National chains were also said to have a reduced commitment to the local communities in which their stores were located:

... large chains rarely support local communities by donation etc which was the case with local businesses and this is another area in which small rural communities are the big losers. (Harden Shire Council, sub. 7, p. 3)

... local small business operators are frequently integrated into local communities through service and charitable organisations (such as Rotary), contribute to local events and are more likely to be involved in the development of local communities [than the national retail chains]. (NARGA, sub. 139, p. 38)

Woolworths stated that it donated more than \$10 million throughout Australia between 1995 and 1998 (sub. 213, p. 5). While it did not provide a classification of cash and non-cash donations or an indication of the distribution of these donations by area, a number of regional hospitals, among others, were the recipients of donations from Woolworths (sub. 213, pp. 62–4). Thus, while small business people are intrinsically more 'visible' in community circles, it is not clear that there is a lower commitment to the country areas by outlets of the national chains.

In view of the expansion taking place in country areas and the benefits to consumers (evidenced by the success of the major supermarkets in attracting customers), it is not clear that the major supermarkets are a drain on the overall economy of country

Australia. In fact, some participants from towns without a major supermarket expressed a desire to have such a store locate in their community in order to retain expenditure within the community rather than see it flow to large supermarkets in other nearby centres.

Woolworths submitted that a major reason for some independents' inability to compete stemmed from their unwillingness to update their 'offer' in order to meet the changing needs of consumers. However, Woolworths referred to a number of independents which have been more successful in maintaining profitability by meeting customers' preferences:

The common thread linking these independents together is a willingness to change and meet the needs of their customers, in addition to distinguishing themselves from the majors. (sub. 213, p. 4)

While it is clear that many small independent supermarkets and some specialised grocery shops are suffering from the increased competition from the national chains, there are also examples of others finding a niche and remaining profitable. Meanwhile, consumers are benefiting from lower prices, a larger range of goods and better service.

For example, in a survey of retail prices undertaken in April 1998, the Australian Consumer Association measured prices for a basket of goods in 10 metropolitan locations and 14 country locations across Australia (ACA 1998, pp. 10–11). It found that around half of the 10 cheapest cities and towns to shop at were in country areas. It also found that prices in Western Australia, Tasmania and the Northern Territory were higher across the board than those in the eastern states and South Australia. Since a large capital city such as Perth was also more expensive, this would seem to indicate that geographic isolation of these markets may be a more significant determinant of retail prices than is the number of suppliers.

Woolworths stated that it has 'a policy of overall price parity between metropolitan and most rural/regional stores in most States, absorbing normal transport costs' (sub. 213, p. 41). To the extent this is true, this implies that customers in country Australia are benefiting from the company's pricing policy.

Of itself, the expansion of national chains into country Australia is not NCP reform. It is more likely to be related to the competitive advantage that national retail chains derive from the scale of their purchasing power and the efficiency of their established distribution networks. However, the ability of national chains to use their facilities even more efficiently in response to the removal of restrictions on trading hours or on cross-selling (should that occur as a result of legislation reviews) means that there is a link to NCP.

The Commission notes that the broader matter of assessing the degree of dominance in the retail food and grocery market (and the possible consequences for markets in country Australia of any abuse of market power) is essentially the responsibility of the ACCC. It is not the focus of this inquiry and, thus, nor is it one on which the Commission has assembled comprehensive information. The Commission is not, therefore, in a position to make recommendations on the matter.

The outcomes of legislation reviews, however, may contribute to expansion and dominance by national chains. Legislation reviews are intended to take into account the legitimate concerns (such as those raised by participants) of those potentially affected by the reviews on a case-by-case assessment of net benefits. Deregulation of retail trading arrangements (such as in Victoria) resulted from this process of legislation review. Future legislation reviews will determine the extent of any further deregulation in other jurisdictions. The best outcome for the community can be guaranteed only by ensuring the integrity of the legislation review process, including the operation of the ‘public interest’ test. These matters are discussed in detail in chapters 4 and 11, respectively.

FINDING 9.2

The potential for legislation reviews to introduce important changes affecting people’s lives and livelihoods highlights the need for integrity in the review process, including the operation of the ‘public interest’ test provisions of NCP.

Reviews of legislation governing the professions

The present regulatory regimes governing the professions in many instances reserve certain services to practitioners and prescribe the manner of competition between accredited practitioners. The rationale for these regulatory regimes is, to some extent, directed at protecting the interests of the consumer. For example, the National Competition Council (NCC 1998a) pointed out that the use of accreditation standards or reservation of professional title may assist the consumer in overcoming information problems when selecting a medical practitioner or solicitor.

The restrictions on competition arise from the regulatory powers provided to the professional associations and registration boards to admit members, regulate their standards and, in some instances, set fees. Legislation is used to place controls on ownership structures, such as with pharmacies, and reserve certain work to members of the profession, such as in the case of conveyancing in Queensland. The NCC said:

... some traditional form of professions' regulations appear to do little other than to restrict competition to the benefit of professional practitioners. For example, prescribed fees for professional services appear to be designed primarily to limit competition. Similarly, where accreditation standards are set at unnecessarily high levels, they have the potential to exclude suitable service providers from the market. (1998a, pp. 113–4)

Regulatory arrangements governing the professions are to be reviewed as part of the legislation review process of the NCP. In addition, NCP has extended Part IV of the Trade Practices Act, which deals with anti-competitive behaviour, to cover aspects of the professions, such as medical partnerships.

Some regulatory reform has been undertaken already by State and Territory governments. For example, restrictions on advertising legal services have been lifted and conveyancing is now open to non-lawyers. Furthermore, mutual recognition of entry standards within some professions has removed a number of State-based barriers to competition (NCC 1998a). These reforms have resulted in benefits to consumers. For example, following the removal of the restrictions on conveyancing in New South Wales, conveyancing fees fell by 17 per cent, resulting in consumer savings of around \$86 million (Baker 1996).

The review of regulatory regimes governing the professions may benefit country Australia, particularly if it removes those aspects which enable professions to limit the number of practitioners or retard flexibility in the provision of services to people in country Australia. This could ease the shortage of professional services in country areas — a concern widely raised with the Commission during the inquiry.

Beneficial outcomes from reviews of legislation may, however, be undermined by the way in which changed arrangements are subsequently administered. The Commission was presented with a claim that the potential gains from the Victorian review of legislation governing optometrists were not being fully realised for this reason (see box 9.1).

Box 9.1 **Review of Victorian legislation governing optometrists**

The Victorian Government reviewed its *Optometrist Act 1958* as part of a broader review of legislation governing health practitioner registration. The 1958 Act was characterised by inflexible and outdated provisions, and included significant restrictions on competition. These included restrictions on ownership of optometric practices and restrictions on orthoptists signing prescriptions for glasses (Victorian Government 1998, p. 12).

The legislative review assessed the net public benefit for each of the Act's restrictions on competition and found that changes were warranted. The review resulted in the proclamation on 1 July 1997 of the *Optometrists Registration Act*.

Among other things, the new Act removed all restrictions on who can own an optometric practice, and extended the right to prescribe for glasses — but not contact lenses — to orthoptists (but only for patients with a referral which is less than six months old from an optometrist or a practicing ophthalmologist).

However, A. and R. Hughes claimed (sub. D263 and D286, trans., pp. 567–76) that the intent of the changed legislation to improve competition and so give consumers greater choice of eye care provider, particularly in rural and remote areas, was being thwarted. They stated that the Government, by giving the Optometrists Registration Board the power to interpret and implement the Act, has allowed the Board to exercise that power in a way which prevents an orthoptist from measuring for and prescribing glasses as an independent practitioner.

FINDING 9.3

As the reviews of legislation governing professions in most jurisdictions have yet to be undertaken, NCP has had little impact overall to date on the provision of professional services in country Australia.

Access regime issues

The national access regime

As outlined in chapter 4, access to certain key infrastructure facilities (ie essential facilities which cannot be duplicated economically) is important for competition in related markets. As part of the NCP reforms, all governments agreed to establish a suitable framework for this to occur. This involved the introduction of an access regime under Part IIIA of the Trade Practices Act. Under this regime, third parties seeking access may:

- request the NCC recommend that the Minister in the relevant jurisdiction *declare* access to the services of a particular infrastructure facility. If the

infrastructure facility is declared, the infrastructure operator and the third party are required to negotiate mutually acceptable terms of access. (If the parties cannot agree on the terms and conditions of access, there is scope for the parties to seek legally binding arbitration);

- seek access through an *effective* access regime already in existence. (If an access regime is already in existence, the Premier or Chief Minister of a State or Territory, respectively, may request the NCC to *certify* that the regime is ‘effective’); and
- seek access based on the terms and conditions of a legally binding *undertaking* made with the infrastructure operator and registered with ACCC.

The purpose of access regimes is to improve competition in markets located upstream and downstream from essential facilities such as pipelines and rail lines. Increased competition provided by an access regime has the potential to benefit people and businesses in country and metropolitan Australia through improved services and lower prices. Examples of applications to access infrastructure are in box 9.2.

Box 9.2 Applications for access to infrastructure

Specialised Container Transport’s (SCT) applied for the declaration of certain Western Australian rail services in order to access them under the terms of the new regime. The NCC recommended that the rail services be declared, but the rail freight support services not be declared. The relevant Minister, the Western Australian Premier, rejected the NCC’s recommendation and did not declare either service. An appeal was lodged by SCT with the Australian Competition Tribunal which was withdrawn after SCT and the Western Australian Government reached agreement over access.

The NCC has received an application from the Queensland Premier to certify as effective the Queensland Access Regime for Natural Gas Pipeline Services. The public consultation process began in early 1999. In New South Wales, the NCC has completed the public consultation process for certification of the New South Wales Gas Access Regime.

The Victorian Government applied to the NCC to have its access regime for commercial shipping channels in the ports of Melbourne, Geelong and Hastings certified. The regime was certified as being effective for a period of five years from May 1997.

Source: NCC (1998e).

Access and new investment

The NFF (sub. D297, p. 11) saw access to (and pricing of) infrastructure as an issue of vital concern for rural and regional Australia. It argued that ill-considered or unduly complex processes of implementing access regimes could seriously undermine the competitiveness of Australia's rural and regional industries (p. 28). The Governments of South Australia (sub. 156) and the Northern Territory (sub. 128) raised concerns about the possible impact of access regimes on investment in infrastructure projects relevant to regional development.

The South Australian and Northern Territory Governments' concerns related to the proposed Adelaide to Darwin rail project. They considered that investors could be deterred because they might be unable to make an adequate rate of return from such a large infrastructure project if competitors were able to gain access and 'cherry-pick' the profitable services. The Northern Territory Government said:

For the private sector to commit to the project, a measure of certainty is required in terms of the use of the facility in order to protect the investment. (sub. 128, p. 7)

and:

... the existing arrangements for access are motivated around existing infrastructure and take no account of the pioneering nature and special risks associated with new infrastructure. This is likely to have an adverse effect on the development of regional Australia. (sub. 128, p. 8)

As the South Australian Government explained:

Large new infrastructure projects in regional Australia, such as the Adelaide to Darwin railway, are characterised by a large initial capital investment and a long period of much smaller annual revenues with which to service the initial capital investment. (sub. 156, p. 11)

The access application made to the NCC in September 1998 to have Hamersley's Pilbara rail network declared, and the resulting legal deliberations, illustrate the relevance of such concerns to rural and regional Australia.

Concerns that access arrangements may distort investment are not new. King and Maddock (1996) recognised that, while it was important to make the best use of existing facilities by providing competition, incorrect pricing of access could dissuade investors from future investment in the facility or service. Consequently, short-term efficiency could be at the cost of long-term efficiency. As King and Maddock said:

The regulatory authorities will inevitably find themselves trading off short- and long-term goals. At best, a balance will be struck between those goals which provide reasonable benefits to both present and future consumers. (1996, p. 107)

In respect of the development of a new facility, King and Maddock said:

... the provisions of the Competition Policy Reform Act [access regime] may also severely curtail the likelihood of a new facility being constructed. In particular, if the prospect of providing access to a proposed essential facility dilutes profits, the facility may simply not be built. (1996, p. 120)

The Industry Commission (IC 1995b) also recognised the inherent difficulties in the regulation of access arrangements. Regulation, in general, has its own costs on government and business though compliance costs, in collecting information, resolving disputes and in uncertainty. More specifically, regulators may find it difficult to determine efficient access prices. If they fail to do so, production and investment decisions can be distorted. Setting the access price too low would reduce the profitability of the infrastructure owner and weaken the incentive for further investment in the facility. On the other hand, setting the access price too high may act as a disincentive to competitors to seek access and weaken competition.

There is no easy trade-off between the past situation where owners of strategic infrastructure could exercise monopoly control over output and prices (to the detriment of users and consumers) and a situation where the benefits of infrastructure investment may be delayed or jeopardised by an access regime.

The access process

The Northern Territory and South Australian Governments raised concerns over the complexity of, and potential for delays involved with, the access process for the proposed Darwin to Adelaide railway.

The Northern Territory Government (sub. 128) raised a number of possibilities for dealing with the access issue for the proposed railway. First, there is the 'do nothing' approach. This might result in the infrastructure being 'declared', leading to the railway being used by third parties at an unacceptably low price for the owner-operator. Second, there is the prospect of a successful change to the Trade Practices Act, which the Government judged as unlikely. The third possibility is an undertaking by the operator and the ACCC. However, the Government indicated that this was not realistic, as the ACCC could deal only with the preferred consortium for the project. At this stage, there was no preferred consortium, merely three short-listed consortia. Finally, the Northern Territory Government believed that the only avenue available to deal with the access issue was for the Northern Territory and South Australian Governments to create a complementary legislative regime and seek NCC certification that the regime is 'effective'. The concern of the Northern Territory Government from this was that the certification process would

not be completed prior to the date by which the final detailed submissions from the consortia bidding for the project were due.

The South Australian Government said:

Potential investors in these infrastructure projects are likely to be discouraged by the fact that they are subject to a complex and uncertain access regime under Part IIIA of the Trade Practices Act, which can only be avoided through equally complex and lengthy processes in the acceptance of an undertaking by the Australian Consumer and Competition Commission or the development of State regimes certified by the NCC. (sub. 156, p. 11)

The Commission, in its inquiry into *Progress in Rail Reform* (PC 1999e), found that reform in this area has been slow and current access arrangements were complex due to the multiplicity of regimes and the intricacies associated with each regime.

An open and transparent process is important to minimise uncertainty and provide confidence in the process of establishing an access regime. To help achieve this objective there must be adequate consultation and time available to permit interested parties to prepare submissions and have them assessed, and for the recommendations and the reasons for them to be published.

The Commission notes that under the Competition Principles Agreement, the Commonwealth Government will initiate a review of Part IIIA access arrangements in 1999-2000. This will provide an opportunity for the arrangements to be assessed and changed if needed.

9.3 Other issues

Participants raised a number of other issues which, while not part of the NCP reforms, relate to the introduction of elements of competition in markets of importance to country Australia. Of particular concern were issues relating to petrol prices and bank closures in country Australia.

Petrol prices in country Australia

Differences between retail petrol prices in metropolitan and country areas were a common concern raised by participants. This issue, while not part of NCP reforms, served as a spur for a recommendation of the House of Representatives Standing Committee on Financial Institutions and Public Administration (the Hawker Committee) to instigate this inquiry and report into NCP (HRSCFIPA 1997a, pp. 22–3). It has also been the subject of increased attention during July and August

1999, as higher world oil prices led to price rises of about 10 cents per litre (cpl) at the petrol bowser.

The difference between city and country petrol prices can exceed 10 cpl, particularly at the height of price wars in the cities. Various studies over the years have reported average price differences of between four cpl and 12 cpl (for example, IC 1994b, pp. 84–9). Overall, the differences are significantly more than apparent cost differences would explain, and vary over time and between regions.

A discrepancy between city and country petrol prices is also common in the United States and the United Kingdom. Investigations by the ACCC found that in the United States prices differed considerably across regions (ACCC 1996, pp. 80–1). For example, the price of petrol in Alaska in February 1994 was 56 per cent higher than in Indiana. Even in more proximate States, like Arizona and Utah, the difference was 37 per cent. It is unlikely that inter-regional differences in tax rates would account for price differences of this magnitude. Similarly, in the United Kingdom, petrol in Oxfordshire, 100 kilometres from central London, was found to be 10 per cent higher than that in South-East London. Hence, differences in prices between metropolitan and country areas are not peculiar to Australia.

Many factors contribute to the difference between city and country petrol prices. For instance, in country areas the lower population density means reduced density of demand, which often dictates lower sales volumes per outlet. In turn, this results in a smaller scale of operations and higher margins. On the other hand, outlets in metropolitan areas are generally able to apply lower margins per litre of fuel, as evidenced by the following:

... an average country service station sells less than half the fuel of city service stations and their profits from non fuel sales are only 25 per cent of those of a typical metropolitan outlet. This means that where a breakeven gross retail fuel margin for an average metropolitan site is around 3–4 cpl, for the average country site it is often double this. (Shell 1996)

In addition to the smaller scale of country petrol businesses, they often have a reduced scope of business compared with city outlets. While urban stations often sell a range of food and convenience products at relatively high margins to augment returns from petrol sales, country stations typically have a smaller range of products over which site expenses can be spread.

In addition, the increased distance from terminals increases not only freight costs, but also response times to changes in supply or demand conditions. This is conducive to a greater degree of influence by the major oil companies in country regions. The corollary of this is a reduced incidence of independent outlets in country Australia.

Although a high level of market concentration by itself is not conclusive evidence of reduced competition, the Australian petroleum industry is characterised by numerous horizontal arrangements between major oil companies. In such circumstances, the presence of independents in the market acts as a spur to competition in some regions. Over the last few years, the industry has seen the entry of a number of new suppliers without ties to the major oil companies. This has been facilitated in part by intervention by the ACCC in the Ampol–Caltex merger in 1995. As a result, undertakings were given to make surplus terminal facilities and retail sites available to independent players. These developments have improved competition and reduced prices in many areas, including in country Australia. For example, data supplied by Woolworths said they had opened 102 Petrol Plus sites across Australia by the end of August 1999, 60 of which were in rural and regional Australia. In some areas, this development has spurred the incumbent oil majors to form partnerships with other grocery retailers, further improving competition and the level of service to customers.

While increased competition has reduced prices and has been welcomed by most participants, some were concerned about whether the low prices would last. For example, some participants told the Commission that the introduction of a Woolworths outlet in their area reduced prices initially, but that after a short period, sometimes a matter of a few weeks, prices returned to their original level (eg Country Women’s Association, trans., pp. 187–9). Whether or not this is a general pattern is unclear. It may be partly an issue about the potential for country markets to become monopolistic and the extent to which a single supplier (or a few suppliers) can exploit market power. Possible policy measures against such developments are discussed in chapter 12.

During discussions with participants in Albany and Bega, it became evident that simply having a terminal in the area did not necessarily reduce the difference in prices. Participants in Bega had occasion in recent years to refer a case of possible ‘phantom freight’ pricing to the ACCC: whereby freight was being charged from Sydney and the product delivered from a terminal in nearby Eden. In such cases it would appear that, for areas with reduced ‘density of demand’, the benefits of having a terminal nearby are minimal.

Problems with matching domestic production to short-run fluctuations in demand may also contribute to price discrepancies. Efficient production from refineries dictates that they run at close to capacity. As a result, when fluctuations in demand have resulted in refinery storage facilities being full, it may be more profitable to discount sales selectively in order to move product than to curtail production. Such selective discounting is said to occur largely in the high-volume metropolitan

market, driving down prices in city areas and increasing the difference between city and country prices.

A complicating factor in the petroleum retailing market is the considerable price variation between outlets of the same company, depending on the location. This is often due, in part, to varying levels of price support given to retailers. While oil companies will often lend price support to retailers in metropolitan areas, particularly in periods of price competition, it appears that this does not occur as often in the country.

There is also marked price variation within cities. For example, prices in the northern suburbs of Sydney are usually higher than those in the western suburbs. This is evidence that convenience is a factor in determining the 'willingness to pay' of customers. In other words, customer preference, as well as suppliers' approach to petrol markets, affects the price, whether in the city or the country. Thus, higher prices in smaller towns often reflect a 'willingness to pay' for convenience as well as higher costs. Of course, in remote areas, there may be no choice of supply.

Other factors contributing to the price differences include:

- fixed price services have an effect on profitability. The use of cards of various types for payment of fuel often attracts a fixed service fee. Amongst them are oil company fuel cards, under which the price of petrol sales is often predetermined in an agreement between the oil company and the card holder, with the retail price margin limited to a specific amount, usually below 6 cpl. For low volume sites where the overall margin is higher than 6 cpl, the reduced margin on fuel card purchases must then be offset by an increased margin on other sales; and
- the relatively large number of small volume retail outlets in country areas limits the scope for profitable sales volumes. Rationalisation has been slower to occur in country areas than in metropolitan areas. Whereas there are about 2500 to 3000 persons per retail outlet in urban areas, some country centres still have fewer than 1000 (ACCC 1996, p. 94) and considerably lower throughput.

The effect of deregulation in the petroleum industry

A number of measures for deregulation of the petroleum retailing industry were announced in July 1998 (DIST 1998). The first of those measures, introduced on 1 August 1998, removed the role of the ACCC in setting maximum wholesale prices across Australia and replaced it with a monitoring role to be undertaken through cooperation between the Australian Automobile Association, the ACCC and the major oil companies. There has been no substantive evidence that the

removal of maximum price regulation has resulted in increased retail prices in country Australia.

Another measure recently introduced was the opening of access to the terminals of the major oil companies to buyers *without existing contracts*, on a commercial basis. This measure was intended to reduce the barriers faced by independent petroleum distributors and retailers in establishing themselves in both metropolitan and country markets, thus increasing competition in those markets. Insofar as bulk users such as transport companies and farmers are now able to access terminals directly, this appears to be having some positive effects. However, the restriction against those with existing contracts appears to be a considerable impediment for many retail outlets. The Motor Trades Association of Australia (sub. D256, p. 3) estimates that ‘only a very limited percentage of retailers (approximately 7 per cent) would be able to employ the so-called “open access” arrangements.’ It may take some time before those retailers who wish to do so are able to release themselves from their existing contracts in order to take advantage of the arrangements and improve the competitiveness of the retail industry.

Announced measures yet to be introduced involve legislation repealing two Acts which regulate the influence of the major oil companies over the retail sector. Those Acts are the *Petroleum Retail Marketing Sites Act 1980* (hereafter the ‘Sites Act’), which restricts the number of sites that each major oil company may own and operate, and the *Petroleum Retail Marketing Franchise Act 1980*, which governs the relationship between franchisor oil companies and their franchisee service station owners. In return, the oil companies have agreed to strengthen the *Oilcode* — an industry agreement which regulates conduct between the parties to franchise agreements. The new code will cover all petroleum suppliers, not just the major oil companies which were the only suppliers to be subject to the legislation. Negotiations on the revamped *Oilcode* are reported to be in the final stages in August 1999, with its launch expected to coincide with the repeal of the legislation.

Repeal of the Sites Act, in particular, is expected to have a significant effect on the industry in country Australia by allowing more efficient participation by major oil companies in the country retail market. The other side of this is that the number of small business opportunities in country Australia will be reduced, since many country outlets are small business franchises rather than directly-owned and operated outlets. Further direct participation by the oil majors is intended to increase competition between major oil companies and the newer independents, who should gain from improved access to bulk product from terminals. Through this increased competition, the number of sites in Australia has been forecast to decrease by up to 50 per cent within the next five years. Most of the sites to close will be in country Australia, because there has already been significant rationalisation of sites in the

cities. This, of course, has raised concern from some in country communities. As the National Party of Australia Women's Federal Council said:

The proposed restructuring of the petroleum industry has caused some concern amongst our members. The suggested decrease in service station outlets from 7000 to 4000 will mean that many small independently owned stations will disappear, surrendering their market share to the large retail outlets like Woolworths or large 'One Stop Shop' fuel outlets. (sub. 130, p. 5)

In summary, increased competition in petroleum supply overall brings with it the prospect of lower prices, benefiting country consumers. In this regard, the national cost savings from rationalising petroleum retailing will involve some regional losses as some outlets close, thereby improving the viability of others. With competition, such lower costs are likely to be reflected in prices. As noted, however, this depends on competition continuing after the rationalisation of sites has occurred.

FINDING 9.4

There are a number of reasons why petrol prices are always likely to be higher in the country than in the cities. These include less competitive markets, the cost of transporting petrol from refineries and the more limited scope to sell large volumes of petrol at smaller profit margins.

Bank branch closures in country Australia

The closure of bank branches in country Australia was raised frequently in discussions with people in regional communities and in submissions and public hearings. For many, the local bank is seen as the 'lifeblood' of the community and the loss of the last bank in town is symbolic of a process of decline viewed as difficult, if not impossible, to arrest. In some respects, bank closures represent a 'chicken and egg' conundrum. Banks are likely to leave town when their viability is weakened by declining population, but a bank closure can expedite this very process because, as noted by De-Anne Kelly, MP:

When customers are obliged to travel considerable distances to transact bank business, they are more likely to take their other business to that centre. (sub. 47, p. 3)

Similar views were expressed by many other participants. For example:

The loss of bank branches in Home Hill and Giru has reduced the accessibility and convenience of banking services. This has increased the drift of trade to major centres ... (Canegrowers Burdekin, sub. 30, p. 2)

Rural and regional Australians are experiencing a contraction of services as banks make a business decision that servicing small population is no longer ... economically viable. (Riverina Eastern Regional Organisation of Councils, sub. 146, p. 1)

... virtually all our banks have now closed. There's still one that opens part-time but other than that - I think it's three days a week that bank opens. The other banks have all closed and that of course has had a compounding effect in the decline of businesses. There's a lot of shops that are now vacant in the town and so on. (Webb, trans., p. 334)

Estimates by the Reserve Bank of Australia (RBA) indicate that bank branch closures between 1993 and 1996 were slightly higher in country Australia than in metropolitan areas (table 9.2).

Table 9.2 Number of major bank branches in Australia, 1993 and 1996^a

	<i>1993</i>	<i>1996</i>	<i>Percentage change</i>
Metropolitan	3 153	2 790	-11.5
Non-metropolitan	2 315	1 993	-13.9
Total	5 468	4 783	-12.5

^a month of June.

Source: RBA estimates from Beal and Ralston (1998).

Argent and Rolley (1998) argued that official RBA and Australian Bureau of Statistics data have some problems. They compiled a study using these official sources (1981–96) and a comparison of Telecom/Telstra bank branch listings (1981–98) for non-metropolitan New South Wales. Both data sets reveal a similar decline in financial services provision for that area. It may be noted that the Argent and Rolley figures exclude the number of agencies, ATMs and EFTPOS facilities which increased significantly over the period. Their conclusions, therefore, relate only to dedicated bank branches. Their findings were as follows:

- there has been rationalisation and consolidation of bank branches in many small country towns;
- many regional centres ‘west of the divide’ have buttressed their position at the expense of smaller rural towns — in some cases, there has been net growth in banking services indicating a possible ‘sponge city’ effect;
- in the ‘coastal corridor’ there have been many branch closures, while some nearby localities, including centres previously without any branch, have recorded growth in branch provision; and
- rural and remote areas of New South Wales lost about 23 per cent and 30 per cent of their branches, respectively, between 1981 and 1998.

In a submission to this inquiry, Argent and Rolley noted that:

... rural and remote areas of New South Wales have borne a disproportionately large share of the rationalisation of bank branches that has occurred throughout the State over the past five years. The 'Other Rural Area' and 'Remote' zones ... together contained half of the total 'non-metropolitan' NSW bank branches in 1981. However, localities in both zones that have become branchless since this time account for 64.2 per cent of all non-metropolitan NSW centres stripped of their bank branches. (sub. 68, pp. 5–6)

The causes of bank branch closures in country Australia probably stem from a range of factors including:

- the deregulation of the financial system in the 1980s, which increased competitive pressures on banks;
- a reduction in population and activity such that the volume of trade in a bank branch is no longer able to achieve return on investment targets;
- the increasing tendency for people to undertake shopping, banking and recreational activities in provincial centres rather than local areas; and
- changing technology which reduces the need for over-the-counter transactions.

Regarding the last point, the increased use of EFTPOS and credit cards for retail purchases has directly reduced the number of cash transactions at stores. In addition, the cash-out facility of EFTPOS has reduced both the frequency with which stores need to bank takings and the need for customers to withdraw cash at bank branches.

In addition to EFTPOS, alternative modes of banking include agency arrangements such as through post offices, ATMs, and telephone and Internet banking options. Some participants acknowledged that the range of services available and the times during which they can conduct their banking have expanded considerably over the last five to 10 years. For many participants, however, such options represent unsatisfactory alternatives:

Although electronic banking has been provided, in some cases, this is still of little assistance to retail operators who have large weekly cash amounts to bank and must resort to the use of private and somewhat costly security conveyancing firms. (Sorell Council, sub. 84, p. 2)

Satisfactory alternatives are not available due to the inadequacy of the telecommunications infrastructure. (Buloke Shire Council, sub. 66, p. 4)

The Post Office Agents Association of Tasmania (sub. 76) said that insufficient licensed post offices — privately owned and operated — in rural and remote Australia had access to technology to provide banking and other electronic services for the local community. It contended that extending the technology currently available in most corporate post offices to all licensed post offices would provide benefits to the community. The Association said:

They would keep business in their own community, spend their money in their own community, help local businesses to be viable and help provide employment opportunities. Money and time would be saved by not having to travel to another centre for these services. (sub. 76, p. 4)

In some instances, alternatives are emerging — a point raised by Associate Professor Sorensen who noted the emergence of alternative service delivery mechanisms:

Electronic banking is one of these, but more important in an equity sense is the development of non-bank financial services. In many parts of Rural Australia, Credit Unions have stepped in to provide good quality services. Other alternatives include agency arrangements housed with other businesses or even Local Government, ATMs, and EFTPOS services. (sub. 58, p. 2)

Argent and Rolley (1998) also reported some 'positive' developments for regional users. Westpac has developed an experimental facility in Canowindra, New South Wales, via an agency arrangement with the local newsagent. The Colonial State Bank is trialing similar initiatives. In Victoria, Bendigo Bank has set up 14 'community banks', with another 15 planned for 1999-2000. The fact that this has proven to be a profitable venture for Bendigo Bank, contributing to higher than expected profit results for 1998-99, indicates that there is a financial return to targeted investment in this area as a niche market.

The Pharmacy Guild of Australia and BankWest, in a plan which would improve services for many small towns, have formed a joint venture called GuildBank which is to introduce banking facilities to 90 per cent of Australia's pharmacies during 1999 (BankWest 1999).

Beal and Ralston, in a study of the economic and social impacts of bank closures, concluded that the loss of a bank branch need not be an insurmountable problem for country communities:

There is no doubt that people are able to adjust to change over the long term. Unwanted and unanticipated changes tend to inflict significant wounds in the short term, but people make reactive adjustments to their operations to cope with change. For example, it is unlikely to be coincidental that the response to this survey from people in the towns suffering the most recent closures was greater than the average response rate, whilst the response from people in the towns where the banks closed some time ago was correspondingly less.

The introduction of giroPost banking services and the establishment of credit union offices in some towns have assisted individual to adjust and to manage their cash requirements. The loss locally of other services provided by banks can be overcome by individual, at the cost perhaps of some inconvenience. (1998, p. 25)

Nevertheless, the transitional social costs can be significant for the elderly and others who face difficulties in making the transition from face-to-face service to other technologies.

The Commission notes that some communities are seeking to find their own solutions (for example, attracting regional banks) and governments also are seeking to facilitate the establishment of rural transaction centres and improved telecommunications services (see chapter 12) which will assist electronic forms of banking.

Bank closures have less to do with government policies, including NCP, than with technological and market changes. Although inconvenient for some users, it seems inevitable that bank branches in country Australia will not be as regionally dispersed as was the case before the advent of reliable motor vehicles, good roads, and present-day communications technology. That is not to say that adequate banking services will not be widely available in rural and regional communities.

10 Summary of Impacts of NCP Reforms

Implementation of the National Competition Policy (NCP) reforms is far from complete and there are a number of intractable problems which make a comprehensive assessment of their effects on country Australia very difficult. In the infrastructure area where the reforms have continued and expanded on previous Council of Australian Government (CoAG) reforms, significant benefits are apparent. To date, large users and metropolitan business users have been major beneficiaries of the reduced cost of infrastructure services, but there have been benefits in country areas also. The improved competitiveness of such users is likely to be of indirect benefit to other businesses and consumers in country and metropolitan areas. The direct costs of some reforms to date have tended to show up more in country areas than in the cities.

When likely longer-term benefits are factored in, and allowance made for costs of implementing some reforms, the NCP reforms appear to offer significant gains to the Australian economy overall. Country Australia as a whole is likely to benefit from NCP, although there is likely to be more variation in the incidence of benefits and costs across country regions than in metropolitan regions.

The effects of the NCP reforms on most, but not all, regions are likely to be less significant than those resulting from the broad economic forces continually reshaping economic and social conditions in the Australia.

10.1 Introduction

The impacts of NCP reforms are assessed in this chapter. The next section summarises the quantitative information from individual reform areas, given in chapters 5 to 9 inclusive, of the effects to date on:

- costs and prices;
- quality of services; and
- employment.

The third section provides an indication of the ongoing impact of the NCP reforms. It reports estimates of the long-run regional impacts of full implementation of NCP reforms derived from modelling undertaken for the inquiry.

The NCP reforms come on top of many other factors affecting economic and social conditions more generally in the community. These include demographic, government and market driven factors — such as changes in population and incomes, declines in the terms of trade for agriculture in Australia, productivity growth and reductions in industry assistance. The regional importance of selected broader economic forces known to be influential for country Australia is indicated in the fourth section, where the estimated influence of the NCP reforms are compared with the changes which actually occurred in the decade to the mid-1990s. The resulting information is used to provide some historical perspective against which the magnitude of additional regional changes likely as a result of implementing the NCP reforms can be gauged.

It must be emphasised that accurate assessment of the economy-wide and regional effects of NCP is complex and difficult. In large measure, this reflects the problems involved in isolating the influence of a specific, but wide-ranging, set of policy reforms from other factors which affect economic and social conditions.

It also reflects the intrinsic problems associated with compilation of regional statistics. Given the mobility of people and goods and services within Australia, the dividing of economic activity into highly disaggregated individual regions is increasingly nebulous. For example, as shown in census data, some people reside in one statistical division of the country and work in another. Accurate and comprehensive data on such interactions across regions are not available and would be virtually impossible to obtain. Such measurement problems inevitably constrain quantitative assessments of regional effects.

10.2 Effects to date

Before summarising the effects to date, it is useful to distinguish between short-term, or transitional, effects and longer-term, or ongoing, effects which apply once the reforms have been implemented and businesses and individuals have adjusted to the new operating environment.

Many of the infrastructure reforms embody substantial cost savings from improved labour productivity as overmanning has been reduced and new technologies adopted. The displaced workers bear the short-term costs of loss of income as they seek new employment. If this involves relocating with their families, then the short-term costs are increased. This is more likely in country than metropolitan areas. It is

also more likely if there are many displaced workers in a region. In addition, there may be a private loss of capital if displaced workers have to sell their houses in a property market weakened by them all seeking to sell at the same time. In turn, the loss of people has an impact on the local providers of services such as shops, schools, banks, health facilities and councils, and on the general social diversity provided by larger communities. Finally, if there is a long time before another job is found, or labour withdrawal, then the costs are no longer short-term. Much of the anecdotal evidence the Commission heard in discussions with participants in country areas concerned such initial and ongoing costs.

In contrast to many of the costs, the benefits stemming from infrastructure reforms typically endure. The financial benefits are reflected in increased dividends (or reduced costs) to governments and usually lower prices to users. The increased dividends (or reduced costs) to governments offer the potential for lower taxes and/or increased government services than would otherwise be available. The government savings are not limited to initial savings in operating costs, as the reforms often also result in substantial savings from more efficient capital investment (eg deferral of new electricity generation capacity and investment in a more appropriate mix of generation capacity).

While some users will face higher prices, infrastructure and statutory marketing reforms which increase opportunities for competition will generally lead to lower prices than could otherwise be achieved. These lower prices improve the competitiveness of user industries and create opportunities for businesses to increase output and employment.

The importance of government infrastructure services in industry costs varies both between and within industries. For many industries in country Australia, such services comprise a significant proportion of total costs. For example:

- rail transport accounts for around 5 per cent of the costs of the coal, oil and gas industry; and
- electricity represents approximately 3.5 per cent of the costs of the non-ferrous mining industry.

Some agricultural industries stand to gain considerably from statutory marketing reforms because their purchases of products covered by such arrangements represent a significant proportion of their costs.

The other key determinant of an industry's competitiveness is the magnitude of the price reductions. As the data below show, typical price changes over time provide no clear identification of how much of the change is directly attributable to the NCP reforms and how much is due to other factors (eg technological changes).

Accordingly, care is required in interpreting information on changing industry competitiveness.

Improved competition, coupled with increases in consumer spending power associated with NCP price reductions, will stimulate higher output and create additional jobs. However, such ongoing benefits are not easily recognised as they are widely dispersed throughout the economy and represent only a small saving in each purchase relative to what would otherwise occur. The modelling in section 10.3 is designed to capture such individually small, but cumulatively large, effects.

In considering the effects to date, it is convenient to put the NCP reforms into two groups. The first includes those reforms which represent a continuation of previous reforms — such as those infrastructure reforms covered by CoAG agreements which were explicitly brought into the NCP package and governments' reforms of their infrastructure monopolies. The second includes the new reforms — such as the extension of the scope of the Trade Practices Act, the comprehensive review of legislation containing anti-competitive elements (including statutory marketing arrangements (SMAs)), the introduction of access regimes for some infrastructure and the introduction of competitive neutrality to government businesses.

For reforms which represent a continuation of previous reforms, it is convenient to think initially of the NCP results to date as being more of the same — improved operational efficiencies from better investment decisions, cost cutting, more appropriate services and improved cost recovery. However, the situation with respect to the new NCP reforms is different. The new reforms are far more comprehensive, introducing: a more comprehensive and consistent separation of government business activity from regulatory activity; a more comprehensive and consistent separation of natural monopoly elements from contestable and competitive elements; better regulation of the monopoly elements to ensure more cost-reflective pricing; competition to set prices in contestable areas; and the incorporation of a 'public interest' test to ensure that non-economic considerations are taken into account.

Costs and prices

Costs and prices are influenced not only by NCP reforms, but also by unrelated factors such as technological changes and shifts in consumer preferences. In the infrastructure area, there is evidence of significant improvements in productivity from NCP reforms leading to cost savings which have been passed on to consumers in the form of lower prices and to governments in the form of better investment decisions and more commercial returns. For example, between 1991-92 and

1995-96, the average real (inflation adjusted) price for services provided by 73 government business enterprises fell by 15 per cent (SCNPMGTE 1997, p. 4).

There is a widespread misconception that the NCP reforms are solely about reducing prices to consumers. While this will often be the case and is an important outcome, NCP reforms are aimed at more efficient pricing. In some situations, this can involve increases in user and consumer prices. For example, in the water reform area, the pricing reforms recognise the scarcity of water in many regions and the over-allocation in some river systems, and involve application of the 'user pays' principle and the removal of cross-subsidies. Consequently, the reforms are resulting in substantial increases in prices to some users and better environmental outcomes.

In the electricity, gas, rail, ports and telecommunications areas, there have been significant price reductions. Generally, the price reductions have been greater for large business than for small business users, and greater for business than for residential customers.

At the same time, prices in most areas of water supply and those faced by householders for gas services in some regions (eg residential gas prices in Victoria) have risen to reflect more closely the costs of supply.

The pattern of initial impacts suggests that, in many cases, businesses in metropolitan areas have been the main early direct gainers from reduced prices charged for infrastructure services. For instance, in the case of electricity, while large users in all areas have benefited, metropolitan areas have gained more than country regions. In part, this pattern of initial effects is a result of the staged implementation of the reform program, whereby the contestable market has been introduced for the largest users first. It also reflects efforts to reduce cross-subsidies. The improved competitiveness of business users is also likely to lead to indirect benefits to other businesses and consumers of their goods and services in both country and metropolitan areas.

Reductions in rail freight rates are important for country Australia as rail is used to transport around 40 per cent of Australia's agricultural and livestock production, 64 per cent of its mineral production and 14 per cent of fertiliser, cement and timber production. Country Australia, with its high export orientation, has benefited also from lower port charges. In addition, country people have benefited from the substantial price reductions for long distance telephone calls.

It is difficult to determine the cost and price effects of NCP reviews of anti-competitive legislation supporting SMAs. Not all reviews have been completed and few of the reforms recommended by reviews have been implemented. As SMAs can

involve higher domestic prices than would otherwise occur, reviews which lead to the dismantling of such arrangements are likely to reduce those prices. This will disadvantage many, though not all affected producers and benefit both country and metropolitan user industries and consumers.

Table 10.1 summarises the available data by reform sector on cost and price changes since the introduction of the NCP reforms. Additional information on the effects of the NCP reforms, including that provided by participants, is contained in chapters 5 to 9.

The currently available cost and price data do not necessarily provide a good indication of the likely longer-term impacts of the NCP reforms, as the data include the effects of other technological, economic and social influences. Furthermore, significant reform remains to be undertaken in most areas.

Community service obligations

The prices paid in country Australia by users of many infrastructure services subject to NCP reforms, have been influenced by governments' maintenance of community service obligations (CSOs). While NCP does not constrain governments' capacity to retain CSOs, it requires that they be clearly identified and costed. Thus, NCP processes lead to the review of CSOs which might otherwise not be subject to scrutiny. In some cases, such reviews have led governments to abolish or reduce the benefit provided. It is important to note that such decisions are at the discretion of individual governments and are not mandated by their agreement to implement NCP reforms.

In many regions, electricity prices have been maintained below the cost of supply, typically for domestic use, as explicit 'tariff equalisation' CSOs by governments. In addition, there are specific CSOs for pensioners and Aboriginal community services. The cost of CSOs has ranged from around 0.5 per cent to 9 per cent of an electricity supplier's revenue.

The use of CSOs is also an important feature of water prices in country Australia. They cover not only defined users, such as pensioners, but also users in particular regions. For example, in 1996-97, the South Australian Water Corporation received \$72 million from the South Australian Government for CSOs — mainly for the supply of water to country areas at the same price as in Adelaide. Similarly in that year, the Western Australian Government supplied its Water Corporation with \$182 million for the provision of water services outside the metropolitan area at less than full cost.

Table 10.1 Cost and price changes in infrastructure services subject to National Competition Policy reforms

<i>Reform sector</i>	<i>Cost/price change</i>	<i>Period/ date</i>	<i>Markets affected</i>
	%		
Electricity	↓ 16	1991-92–1997-98	Australia — real (inflation adjusted) average prices, all customers
	↓ 22	1991-92–1997-98	Australia — real average prices all commercial/ industrial users
	↓ 3	1991-92–1997-98	Australia — real average prices all residential users
	↓ 25	1991-92–1997-98	NSW — real average prices all customers
	↓ 13	1991-92–1997-98	Vic — real average prices all customers
	↓ 2	1991-92–1997-98	Qld — real average prices all customers
	↓ 18	1991-92–1997-98	WA — real average prices all customers
	↓ 16	1991-92–1997-98	SA — real average prices all customers
	↓ 3	1991-92–1997-98	Tas — real average prices all customers
	↓ 7	1991-92–1997-98	ACT — real average prices all customers
	↓ 15	1991-92–1997-98	NT — real average prices all customers
Gas	↓ 43	1992–1997	6 major distributors — real controllable costs
	↓ 11	1991-92–1996-97	WA — real prices for business customers
	↓ 9	1991-92–1996-97	WA — real prices for residential customers
	↓ 8.6	1991-92–1996-97	Vic — real prices for business customers
	↑ 7.4	1991-92–1996-97	Vic — real prices for residential customers
	↓ 22	1994–1998	Australia — real gas prices — all customers
Water	↓ 30	1991-92–1996-97	NSW — real prices for metropolitan customers
	↓ 10	1991-92–1996-97	Vic — real prices for metropolitan customers
	↑ 2	1991-92–1996-97	Qld — real prices for metropolitan customers
	↑ 2	1991-92–1996-97	WA — real prices for metropolitan customers
	↑ 5	1991-92–1996-97	SA — real prices for metropolitan customers
	↑ 8	1991-92–1996-97	Tas — real prices for metropolitan customers
	↑ 14	1991-92–1996-97	ACT — real prices for metropolitan customers
	↑ 23	1991-92–1996-97	NT — real prices for metropolitan customers
	↑ various	1994–1998	Irrigation districts
	↓ 39	1997	Metropolitan water — average price reduction for commercial users in Sydney and Melbourne
Rail	↓ 40	1991-92–1996-97	Freight rates on the Melbourne to Perth rail route
	↓ 16	1991-92–1996-97	National freight rates (in real terms)
Ports	↓ 23	1991-92–1996-97	Port authority charges
Telephone	↓ 25	1991-92–1996-97	Subscriber trunk dialling calls — average real price
	↓ 30	1991-92–1996-97	Overseas calls — average real price
Postal	↓ 8.7	1991-92–1996-97	Australia Post — real price of posting a standard letter

Sources: ESAA (1999a) and information supplied by ESAA; NUS International (1998) and (1999); PC (1998e); SCNPMGTE (1998).

In telecommunications, country Australia is the main beneficiary of the existing universal service obligation. Notwithstanding this and the benefits derived to date, many in country Australia feel relatively disadvantaged in terms of access to mobile phone networks and cheap access to quality Internet connections.

Local government

For local government, the initial impacts of NCP reforms appear varied. Councils have been required to review any anti-competitive elements of their legislation and ordinances and ensure that their operations comply with competitive neutrality principles. As a result, many have developed better information systems and achieved cost savings from improved management of business activities. This has occurred in country regions as well as in the cities. Some councils (especially those with large water businesses) have incurred significant implementation costs to achieve the benefits from NCP reforms. For some smaller rural councils, however, the costs of implementation could outweigh any potential long-term benefit.

Quality of services

In the Commission's discussions with participants in country Australia, deterioration in the quality of service delivery since the introduction of NCP was raised frequently in terms of electricity supply and telecommunications.

The available data on service quality indicators, by reform area, are summarised in table 10.2. This information points to different outcomes in each reform sector and, for a given sector, different outcomes across regions. In relation to service quality in country regions relative to metropolitan areas:

- for electricity, loss of supply and average duration of outage have generally been reduced for urban customers in New South Wales and Victoria, but the trend for country customers is equivocal — some better and some worse;
- for urban water, there is evidence of improved levels of service and improvements in the quality of water delivered in some States. There is also evidence of reduced waste of water usage and increased attention to environmental allocations;
- for telecommunications, the results are mixed:
 - Telstra's connection service for new customers in country areas has improved to a level above that for metropolitan business customers, but is still below that for metropolitan residential customers, and
 - since the introduction in January 1998 of minimum service standards (which vary by geographic area) the fault repair service provided to Telstra's customers in remote areas has been below the service provided to customers in rural and urban areas, but rural customers have generally fared better than urban customers; and

- for Australia Post, indicators of service standards, including the number of retail outlets, remained high over the period 1991-92 to 1996-97.

Table 10.2 Service quality indicators

<i>Reform sector</i>	<i>Service quality</i>	<i>Period/ date</i>	<i>Services affected</i>
Electricity	↑	1991-92–1996-97	Vic & Tas — reductions in loss of supply
	↓ ↑	1991-92–1996-97	NSW, Qld & SA — no clear change in loss of supply
	↓ ↑	1991-92–1996-97	NSW, Tas & ACT — no clear change in average duration of outage
	↑	1991-92–1996-97	Qld & NT — average duration of outage lowered
	↓	1991-92–1996-97	SA — average duration of outage increased
	urb/reg	1994–1997	Vic & Qld — average loss of supply greater in regional areas; NSW — no clear difference
	urb/reg	1994–1997	Qld — average duration of outage less in regional areas; NSW & Vic — no clear difference
Gas	↑	1991-92–1996-97	Vic & WA — better overall quality of service; no information to compare country and metropolitan
Telephone	↓ ↑		Telstra — a mixed picture emerges from the range of indicators, with significant State variation

Urb: urban; reg: regional.

Sources: PC (1998e); SCNPMGTE (1998).

Employment

The early direct effects of NCP reforms on employment have been adverse. To some extent, this reflects the removal of overmanning which had developed while government business enterprises enjoyed monopoly status or faced weak incentives to perform efficiently. It also reflects adoption of newer labour saving technology in most areas. As the broader effects of the reforms work to expand the nation's economy, the employment picture is likely to improve, but regional effects will differ.

The available data on direct job losses by infrastructure service providers are summarised in table 10.3. While the losses have been widespread in most reform areas, in the rail sector they have been proportionately greater in country regions.

In interpreting the data on job losses by selected infrastructure providers, it must be remembered that in many areas there is now a much greater use of contracting-out and, in some cases, new private sector entrants (eg Optus in telecommunications) whose employment is not included in the data. A perspective on this is provided by figure 10.1, which shows public and private sector job gains and losses in infrastructure industries over the decade to 1997.

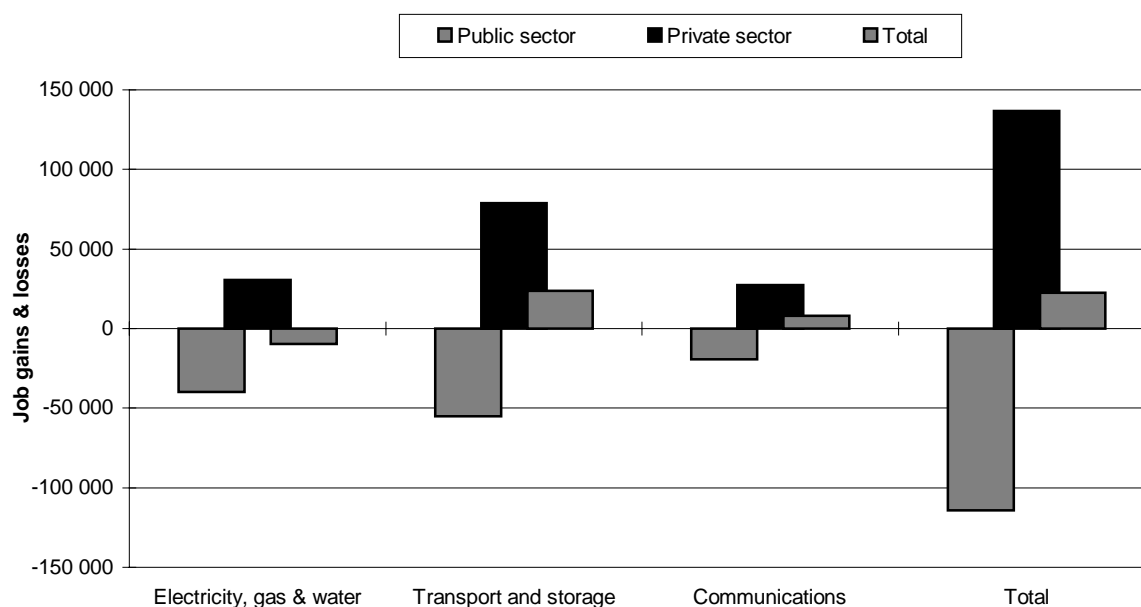
Table 10.3 Direct job losses by selected infrastructure service providers

<i>Reform sector</i>	<i>Job losses</i>	<i>Period/ date</i>	<i>Areas affected</i>
	%		
Electricity	↓ 38	1992–1997	Australia — losses equally spread in both city and country regions
Gas	↓ 42	1992–1997	6 major gas distributors — losses mainly in cities
Rail	↓ 44	1986–1998	Capital cities
	↓ 73	1986–1998	Other areas
Telecomm-unications	↓ 14	1991-92–1997-98	Telstra — nation-wide
Postal	↓ 12	1991-92–1997-98	Australia Post — full-time employees, mainly cities

Sources: ABS, *Labour Force Survey* (unpublished data); Australia Post, *Annual Report* (various issues); PC (1998e); SCNPMGTE (1998).

As indicated in figure 10.1, while public sector employment in infrastructure industries (which includes some industries not covered by NCP) declined by about 114 000 people, or 33 per cent, in the decade to 1997, there was a net gain overall of

Figure 10.1 Job gains and losses in infrastructure industries, 1988–97
People employed



Sources: ABS (*The Labour Force, Australia*, Cat. no. 6203.0); PC estimates based on PC (1998e) and SCNPMGTE (1993).

20 000 persons, or some 6 per cent. Some of the public sector reduction represents a shift in jobs to the private sector. Also, some of the private sector growth represents the expansion of new services, such as the commercial development of better quality communications and mobile phones.

More generally, rationalisation and centralisation of service industries in country Australia can create short to medium-term adjustment difficulties for some regional communities. This issue is discussed in more detail in chapter 13.

Employment in small business is an important part of the economy. The proportion of jobs provided by small business has increased in recent years. In large part this reflects their greater role in the delivery of services and the faster growth of that sector of the economy. With the overall decline in number of farm businesses in the rural sector, the proportion run as small farm businesses has increased slightly.

An interesting issue is whether NCP reforms have any implications for the size of businesses — that is, whether they are likely to favour large businesses more than small businesses, or vice versa. Particular concerns were raised by participants about small businesses, including corner stores involved in retailing and petrol stations (see chapter 9). Continuing rationalisation in those areas of traditional methods of supply, which have occurred largely in metropolitan areas, is spreading more generally to country regions. The reviews of anti-competitive legislation have removed, or could remove, support measures which some traditional small businesses such as the corner store relied upon. These include restrictions on the range of goods which can be sold and exemptions from restrictions on hours of trade. As pointed out by other participants, the newer methods of supply have gained the support of consumers and other small business opportunities have arisen, sometimes associated with these developments.

In the longer term, both large and small businesses are likely to gain from improvements in infrastructure provision.

FINDING 10.1

Infrastructure services represent significant costs for industries based in country Australia. NCP reforms affecting the provision of these services are producing productivity gains which, although leading to some employment losses, have helped to make user industries more competitive and benefited consumers.

10.3 Longer-term regional impacts of NCP reforms

To illustrate quantitatively the possible ongoing impacts of NCP reforms and to explore possible differences between country and metropolitan Australia, the Commission has modelled those elements of NCP most likely to influence economic and social outcomes in rural and regional Australia. The results, reported below, need to be interpreted with care as simplifying assumptions have been used to incorporate the NCP reforms. Moreover, the modelling includes certain reforms which began to be implemented in the early 1990s. This means that the estimated effects incorporate some output and employment changes which have already occurred, as well as those associated with reforms yet to be implemented.

The focus of the modelling is on long-run, ‘outer envelope’ effects. That is, it is based on an assumption of full implementation of the reforms with no change in quality of service provision and complete adjustment to their effects. Transitional effects are not modelled explicitly. However, an indication of possible adjustment problems is provided by looking at the estimated changes in regional employment and by comparing those changes with employment changes which occurred over the last decade.

In undertaking the quantitative work, the Commission revisited the modelling undertaken by the Industry Commission for CoAG in the lead-up to the NCP reforms (IC 1995d). That modelling looked at implementation of the NCP and related reforms and provided an estimate of their potential maximum effects. It provided long-run snapshot estimates showing how macroeconomic variables and sectoral outputs would differ from what might otherwise occur had the modelled reforms been fully implemented and the economy had time to adjust fully to them. However, the results showed only national effects and therefore are of limited usefulness for the current purposes of illustrating rural and regional effects.

Criticisms have been made of that modelling in terms of the manner in which some NCP reforms were specified and included in the model (eg Quiggin 1997), and of its technical ‘closure’. Other criticisms have been made of such models on different grounds — namely, that certain conservative assumptions included in them do not capture some of the efficiency-increasing dynamic gains that NCP reforms are likely to have on business performance more generally as a result of stronger competition in the economy.

For this inquiry, the Commission has chosen a special version of the MONASH model which provides a regional disaggregation, MONASH-RR. It has a detailed commodity and industry structure suitable for analysing the effects of NCP reforms and provides detailed regional results. In using this model, the Commission re-

examined the manner in which NCP reforms have been specified, looked at new evidence of potential effects and considered experience to date with implementation of the NCP reforms.

Full details of the Commission's modelling are provided in a separate supplement to this report (available on request from the Commission). Using the MONASH regional economic model, the Commission has sought to illustrate the economy-wide effects, and also the possible effects on metropolitan and country regions of the NCP reforms. Such models cannot depict with precision the actual effects on small regions of policy changes as broad-ranging and complex as the NCP. In part, this reflects the mobility of people, and goods and services across regional boundaries, which makes assigning estimated changes in economic activity to individual regions difficult. However, modelling can provide some insights about possible effects, especially flow-on or indirect effects.

In developing its modelling results, the Commission circulated a work-in-progress draft to participants and others with a known interest in such modelling, and held a technical workshop on preliminary results in Canberra on 10 March 1999. In addition, the Commission contracted three experts to referee the modelling and present their comments and suggestions for improvements at the technical workshop. A summary of their comments is included in the supplement on the modelling. A complete copy of the referees' written comments is available on request. The analysis included in this report takes account of those earlier comments and comments received in response to the public release of a draft of this report.

The model

The model, MONASH-RR, uses the standard MONASH model classification of the economy into 113 industries and 115 commodities. Notwithstanding the level of disaggregation, it is still too broad to capture fully some aspects of NCP reforms, such as those of State SMAs for smaller volume crops like rice where the effects are modelled as part of the larger commodity and industry group which incorporates rice.

In MONASH-RR, the States and Territories are separately identified. The six States are further disaggregated into 55 statistical divisions — giving a total of 57 statistical divisions. These divisions are shown in table 10.4, with a link to the related ABS statistical division classification and a listing of the main townships in each division. As the divisions were chosen to reflect '... identifiable social and economic links between inhabitants and between the economic units within the region, under the unifying influence of one or more major towns or cities' (ABS

1995, p. 18), most contain a substantial mix of primary and ancillary service activities. This means that some of the regional variation from the impacts of the

Table 10.4 MONASH-RR regions^a

<i>MRES Region</i>	<i>ABS SD</i>	<i>Main centre</i>	<i>Other selected urban centres</i>
Sydney	105	Sydney	Campbelltown, Gosford, Katoomba, Parramatta, Sutherland
Hunter	110	Newcastle	Cessnock, Maitland, Muswellbrook, Port Stephens, Singleton
Illawarra	115	Wollongong	Kiama, Mittagong, Moss Vale, Shellharbour, Shoalhaven
Richmond-Tweed	120	Lismore	Ballina, Byron Bay, Casino, Tweed Heads
Mid-North Coast	125	Coffs Harbour	Grafton, Kempsey, Port Macquarie, Taree
Northern	130	Tamworth	Armidale, Glen Innes, Gunnedah, Inverell, Moree, Tenterfield
North Western	135	Dubbo	Bourke, Cobar, Coonabarabran, Gilgandra, Mudgee, Walgett
Central West	140	Orange	Bathurst, Blayney, Cowra, Forbes, Lithgow, Oberon, Parkes
South Eastern	145	Queanbeyan	Bega, Bombala, Cooma, Crookwell, Goulburn, Yass, Young
Murrumbidgee	150	Wagga Wagga	Cootamundra, Griffith, Gundagai, Hay, Narrandera, Tumut
Murray	155	Albury	Balranald, Deniliquin, Holbrook, Tumbarumba, Wentworth
Far West	160	Broken Hill	Tibooburra, Wilcannia
Melbourne	205	Melbourne	Altona, Dandenong, Lilydale, Mornington Peninsula, Sunbury
Barwon	210	Geelong	Apollo Bay, Colac, Lorne, Queenscliffe
Western District	215	Warnambool	Camperdown, Hamilton, Portland
Central Highlands	220	Ballarat	Ararat, Bacchus Marsh, Daylesford
Wimmera	225	Horsham	Dimboola, St Arnaud, Stawell
Mallee	230	Swan Hill	Kerang, Mildura, Ouyen
Loddon	235	Bendigo	Castlemaine, Maryborough
Goulburn	240	Shepparton	Benalla, Echuca, Kyabram, Rochester
Ovens-Murray	245	Wodonga	Beechworth, Bright, Mount Beauty, Rutherglen, Wangaratta
East Gippsland	250	Sale	Bairnsdale, Omeo, Orbost
Gippsland	255	Traralgon	Moe, Morwell, Wonthaggi
Brisbane	305	Brisbane	Beenleigh, Logan, Mount Gravatt, Redcliffe
Moreton	310	Coolangatta	Burleigh Heads, Caloundra, Ipswich, Noosa, Surfers Paradise
Wide Bay-Burnett	315	Maryborough	Bundaberg, Gympie, Hervey Bay, Munduberra
Darling Downs	320	Toowoomba	Dalby, Goondiwindi, Stanthorpe, Warwick
South West	325	Charleville	Quilpie, Roma, St George
Fitzroy	330	Rockhampton	Emerald, Gladstone
Central West	335	Longreach	Barcaldine, Blackall, Winton
Mackay	340	Mackay	Clermont, Proserpine
Northern	345	Townsville	Ayr, Bowen, Charters Towers, Ingham
Far North	350	Cairns	Atherton, Cooktown, Innisfail, Mareeba, Mosman, Weipa
North West	355	Mount Isa	Cloncurry, Hughenden, Normanton

(Continued on next page)

NCP reforms on smaller more highly specialised regions is averaged out in the aggregation to larger, more diverse regions.

The model adopts a ‘tops down’ approach to regional analysis. Under this approach, national results are generated for each industry. These results are then subdivided into State effects based on the industry mix of each State’s activity, and then further subdivided to give impacts at the statistical division level, again based on the industry mix of each statistical division’s activity. The model allows for the modification of regional results to reflect particular features of a region, with a consequent rebalancing of effects across all other regions. However, the limited information available on such special regional features means that the Commission was unable to derive comprehensive estimates which reflect all such special

Table 10.4 **MONASH-RR regions^a**

(continued)

<i>MRES Region</i>	<i>ABS SD</i>	<i>Main centre</i>	<i>Other selected urban centres</i>
Adelaide	405	Adelaide	Glenelg, Henley, Hindmarsh, Marion, Salisbury
Outer Adelaide	410	Mount Barker	Barossa Valley, Kangaroo Island, Onkaparinga
Yorke & Lower North	415	Yorke town	Bute, Riverton, Wallaroo
Murray Lands	420	Renmark	Murray Bridge, Pinnaroo
South East	425	Mount Gambier	Bordertown, Kingston, Naracoorte
Eyre	430	Port Lincoln	Ceduna
Northern	435	Whyalla	Cooper Peedy, Port Augusta, Port Pirie, Woomera
Perth	505	Perth	Armadale, Fremantle, Joondalup, Stirling, Wanneroo
Peel	510(p)	Rockingham	Kwinana, Mandurah
South West	510(p)	Bunbury	Busselton, Collie, Manjimup, Margaret River, Pemberton
Great Southern	515	Albany	Denmark, Katanning
Wheatbelt	520, 525	Northam	Merridin, Moora, Narrogin
Goldfields-Esperance	530	Kalgoorlie	Boulder, Coolgardie, Esperance
Mid West	535(p)	Geraldton	Meekatharra, Mount Magnet
Gascoyne	535(p)	Carnarvon	Exmouth
Pilbara	540	Port Hedland	Karratha, Newman, Tom Price
Kimberley	545	Broome	Derby, Kununurra, Wyndham
Greater Hobart	605	Hobart	Clarence, Glenorchy, Sorell
Southern	610	Geeveston	Bicheno, Huonville, Triabunna
Nothorn	615	Launceston	Deloraine, Georgetown, St Helens
Mersey-Lyell	620	Burnie	Devonport, Queenstown, Smithton, Ulverstone, Zeehan
Northern Territory	7	Darwin	Alice Springs, Katherine, Nhulunbuy, Tennant Creek
Australian Capital Territory	8	Canberra	

MRES: Monash regional economic system; ABS SD: Australian Bureau of Statistics statistical division.

^a Metropolitan regions are shaded.

Source: Monash-RR data base; ABS 1995 (*Australian Standard Geographic Classification*, Cat. no. 1216.0).

regional features. Thus, the regional estimates of specific reforms, where particular regional characteristics are important, need to be interpreted with care.

In projecting national results to the regional level, a distinction is made between *national*, *State* and *local* industries. National industries are those producing commodities which are highly tradeable on national and overseas markets (eg most agricultural, mining and manufacturing commodities). Conversely, local industries are those producing commodities which are traded predominantly in regional markets (eg many services and perishable commodities) and whose fortunes are tied largely to general activity levels in the State or sub-State region.

The ‘tops down’ methodology is suited to showing the regional effects of national reforms, but less well suited to tracing the regional effects of reforms that are region-specific. In particular, in its present form, the model is not well suited to showing individual regional effects of NCP reforms of region-specific regulation, such as State legislative reviews of dairying. A more appropriate methodology for such regions would be region-specific, or ‘bottoms-up’, modelling as has been undertaken by some States for some of their legislative reviews. Alternative means of modelling NCP reforms and the paucity of data to undertake such modelling are discussed in the separate supplement.

The major NCP reforms modelled are those relating to:

- gas and electricity;
- rail transport;
- road transport;
- telecommunications;
- water; and
- Commonwealth and State SMAs.

The reforms in these areas have been selected for analysis because they are likely to affect regions in country Australia.

Economy-wide results

The selected NCP reforms modelled are cumulatively estimated to provide a sustained increase in output from the economy, as measured by real gross domestic product (GDP), of 2.5 per cent above what would otherwise occur in the absence of the reforms (see table [Error! Not a valid link.](#)). This is equivalent to almost one year’s average annual growth of the Australian economy. The estimated annual gain in real household consumption is 2.8 per cent. In contrast to the estimates made by the

Industry Commission in 1995 (IC 1995d), more of the gains accrue to households because the estimated increase in government revenue from NCP is assumed to flow back to consumers in the form of lower income taxes. Most of the gains are expected to come from the electricity and gas, telecommunications, road and rail reforms. The contributions of water and SMA reforms are modest by comparison.

Table 10.5 Estimated macroeconomic effects of selected NCP reforms

	<i>Electricity & gas</i>	<i>Rail transport</i>	<i>Road transport</i>	<i>Telecom</i>	<i>Water</i>	<i>SMA</i> s	<i>NCP reforms</i>
	%	%	%	%	%	%	%
Real GDP	1.1	0.2	0.2	0.8	0.0	0.1	2.5
Real consumption	1.0	0.3	0.3	1.0	0.0	0.3	2.8
Export volumes	2.2	0.0	0.3	1.3	0.1	-0.4	3.4
Import volumes	0.7	0.0	0.2	1.0	0.0	0.1	2.0
Terms of trade	-0.2	0.0	0.0	-0.5	0.0	0.0	-0.7
Post-tax real wages	1.4	0.2	0.2	1.0	0.2	0.5	3.4

Source: MONASH-RR projections.

The estimated long-run increment to national output is below the 5.5 per cent increase estimated in 1995, largely because a narrower range of reforms were included in the NCP and also because the new estimates of the effects of the selected reforms are slightly lower in total.

Lower domestic production costs arising from the NCP reforms are estimated to enhance the competitiveness of Australian exporters, leading to the volume of exports volumes being 3.4 per cent above what would otherwise occur in the absence of the reforms. The higher level of national income is estimated to increase the volume of imports by 2.0 per cent. The additional growth of the economy from the NCP reforms is estimated to result in a slight deterioration in the terms of trade.

Special care is required in interpreting the wages result. This is because the result reflects the choice the Commission made in the modelling that the benefits of additional economic growth are reflected in improvements in real wages rather than increases in employment. A consequence of the choice is that the NCP reforms, which lead to higher productivity, induce a relocation of jobs between regions and no net national change from employment levels which would otherwise occur. To the extent that, in practice, the additional economic growth leads to an aggregate long-run increase in employment, the estimated increase in wages is overstated and the overall effect on jobs understated. A sensitivity analysis of this choice is reported in the separate modelling supplement to the draft report. The implications of that analysis for the results are discussed below in the section on employment and incomes.

The economy-wide results obtained using MONASH-RR for the selected NCP reforms are broadly similar to those obtained previously by the Industry Commission (1995d, pp. 51–2). The real GDP gains reported here are slightly higher for telecommunications and road transport, but lower for rail transport, electricity and gas, water and SMAs.

Regional results

The long-run effects of the NCP reforms on regions can be measured by their influence on output, jobs and per worker income levels. The MONASH-RR model provides regional estimates for gross regional product — a measure of output — and employment. From these two, a measure of income levels can be derived — gross regional product per person employed. All three measures are reported in table 10.6, which gives estimates by region of the long-run impacts of the NCP reforms.

Output

The results show that implementation of the NCP reforms is estimated to make output higher than it otherwise would be in all statistical divisions across Australia, except Gippsland (see table 10.6). This is despite output being lower than otherwise in some agricultural industries, particularly the milk-cattle and dairy-processing industries (reflecting the assumed influence of particular SMA reforms). This, of course, is not to deny that the reforms may contribute to declines of gross regional product in smaller specialised geographic regions more reliant on a specific economic activity.

A ranking of regions by the estimated long-run increase in output reveals that there is a much wider variability in gains across country regions than for metropolitan areas. Most metropolitan areas are estimated to gain proportional increases in output close to the overall gain of 2.5 per cent. As shown in figure 10.2, some country divisions are estimated to be among the largest beneficiaries of the NCP reforms. Regions likely to benefit most tend to be in Queensland and Western Australia. On the other hand, regions benefiting least tend to be in Victoria, South Australia and the southern part of New South Wales. The estimated decline in activity in the Gippsland region reflects the cumulative negative effects of electricity and gas, water and SMA reforms which more than outweigh the positive effects of road and telecommunications reforms.

Table 10.6 Estimated regional impacts of NCP reforms

<i>Regions</i>	<i>Gross regional product</i>	<i>Employment</i>	<i>GRP per worker</i>
	%	%	%
New South Wales	2.6	0.1	2.5
Sydney	2.6	0.2	2.4
Hunter	4.0	1.5	2.4
Illawarra	3.7	1.5	2.2
Richmond-Tweed	2.2	-0.5	2.7
Mid-North Coast	1.9	-1.3	3.2
Northern	1.8	-1.1	2.9
North Western	2.2	-0.5	2.7
Central West	2.2	-1.0	3.3
South Eastern	1.8	-1.8	3.6
Murrumbidgee	1.7	-1.5	3.2
Murray	1.7	-1.4	3.1
Far West	3.3	0.8	2.5
Victoria	1.9	-0.5	2.4
Melbourne	2.4	0.2	2.2
Barwon	2.2	0.2	2.0
Western District	0.0	-2.9	3.0
Central Highlands	2.3	-0.3	2.6
Wimmera	2.2	-0.6	2.8
Mallee	1.7	-1.2	2.9
Loddon	1.2	-1.3	2.5
Goulburn	0.2	-2.7	2.8
Ovens-Murray	1.7	-0.8	2.5
East Gippsland	2.0	-1.4	3.4
Gippsland	-1.1	-8.5	7.4
Queensland	2.9	0.2	2.6
Brisbane	2.5	0.1	2.4
Moreton	2.7	0.8	1.9
Wide Bay-Burnett	1.6	-1.7	3.3
Darling Downs	1.3	-1.3	2.5
South West	2.2	-1.1	3.3
Fitzroy	5.5	1.5	3.9
Central West	2.4	-1.2	3.6
Mackay	5.8	2.2	3.5
Northern	3.2	0.3	2.9
Far North	2.5	0.5	2.0
North West	4.1	2.5	1.6
South Australia	2.3	-0.2	2.5
Adelaide	2.5	0.3	2.2
Outer Adelaide	1.6	-1.1	2.7
Yorke & Lower North	1.5	-1.8	3.2
Murray Lands	1.1	-2.3	3.4
South East	1.4	-1.3	2.7
Eyre	1.7	-1.3	3.1
Northern	3.4	-0.7	4.1

(continued on next page)

Table 10.6 **Estimated regional impacts of NCP reforms**
(continued)

<i>Regions</i>	<i>Gross regional product</i>	<i>Employment</i>	<i>GRP per worker</i>
	%	%	%
Western Australia	3.3	0.8	2.5
Perth	3.1	0.8	2.5
Peel	4.0	1.6	2.3
South West	3.9	0.0	3.8
Great Southern	2.2	-0.7	2.9
Wheatbelt	2.0	-2.5	4.5
Goldfields-Esperance	5.5	4.0	1.5
Mid West	3.8	1.4	2.3
Gascoyne	3.3	0.2	3.1
Pilbara	3.5	0.3	3.2
Kimberley	3.1	0.8	2.3
Tasmania	2.2	-0.7	2.9
Greater Hobart	2.3	-1.1	3.4
Southern	1.5	-2.5	4.0
Northern	2.7	0.4	2.3
Mersey-Lyell	1.5	-1.0	2.5
Aus. Capital Territory	1.8	-0.7	2.5
Northern Territory	3.3	0.6	2.8

Source: MONASH-RR estimates.

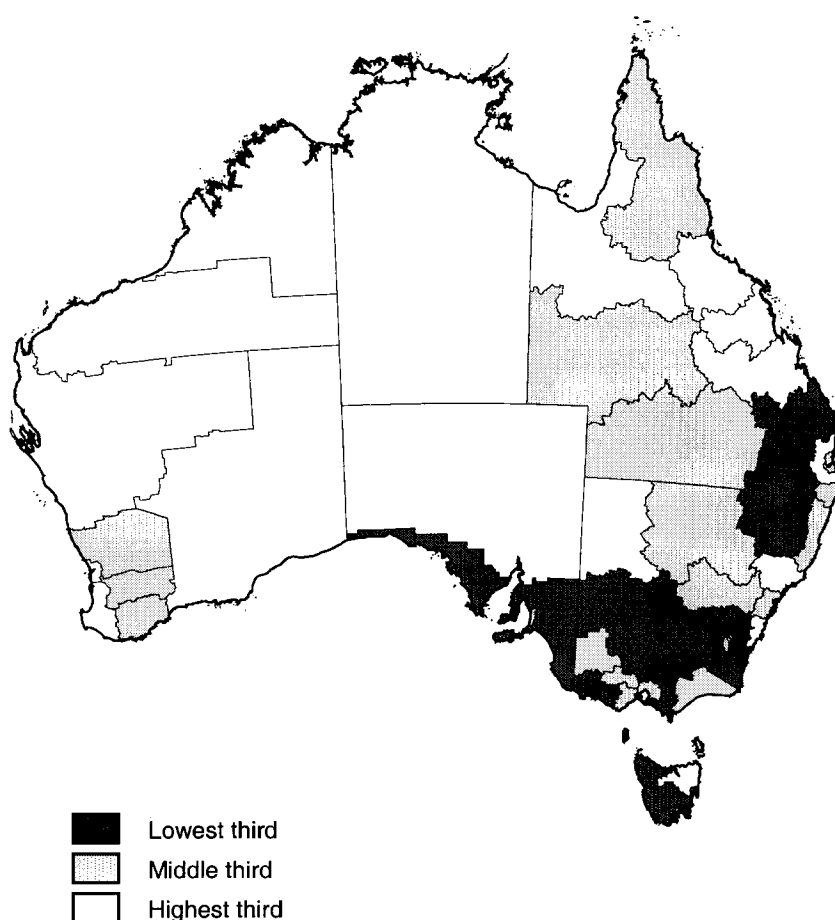
Some one-third of the regions are estimated to gain from each individual reform. For the remainder, the negative effect of one or more of the reforms is estimated to be more than offset by the positive effects of other reforms, except in the case of Gippsland. These results illustrate the distribution of benefits and costs across regions from individual reforms and indicate that any negative influences on a region from some reforms are likely to be offset by the positive effects of other reforms.

Employment and incomes

The increase in national output from implementation of the NCP reforms is associated with higher productivity of labour. The specified no change in aggregate employment means that achieving higher labour productivity involves some relocation of jobs between industries and regions. Because the direct effect of any reform on jobs is usually highly visible, it is easy to overlook or underestimate the indirect and flow-on employment effects from the cost reductions to other industries made possible by the reforms.

The relocation of jobs and increases in incomes per person employed estimated to result from full implementation of, and adjustment to, the NCP reforms are given in

Figure 10.2 Estimated regional output effects of selected NCP reforms



Source: Monash-RR estimates.

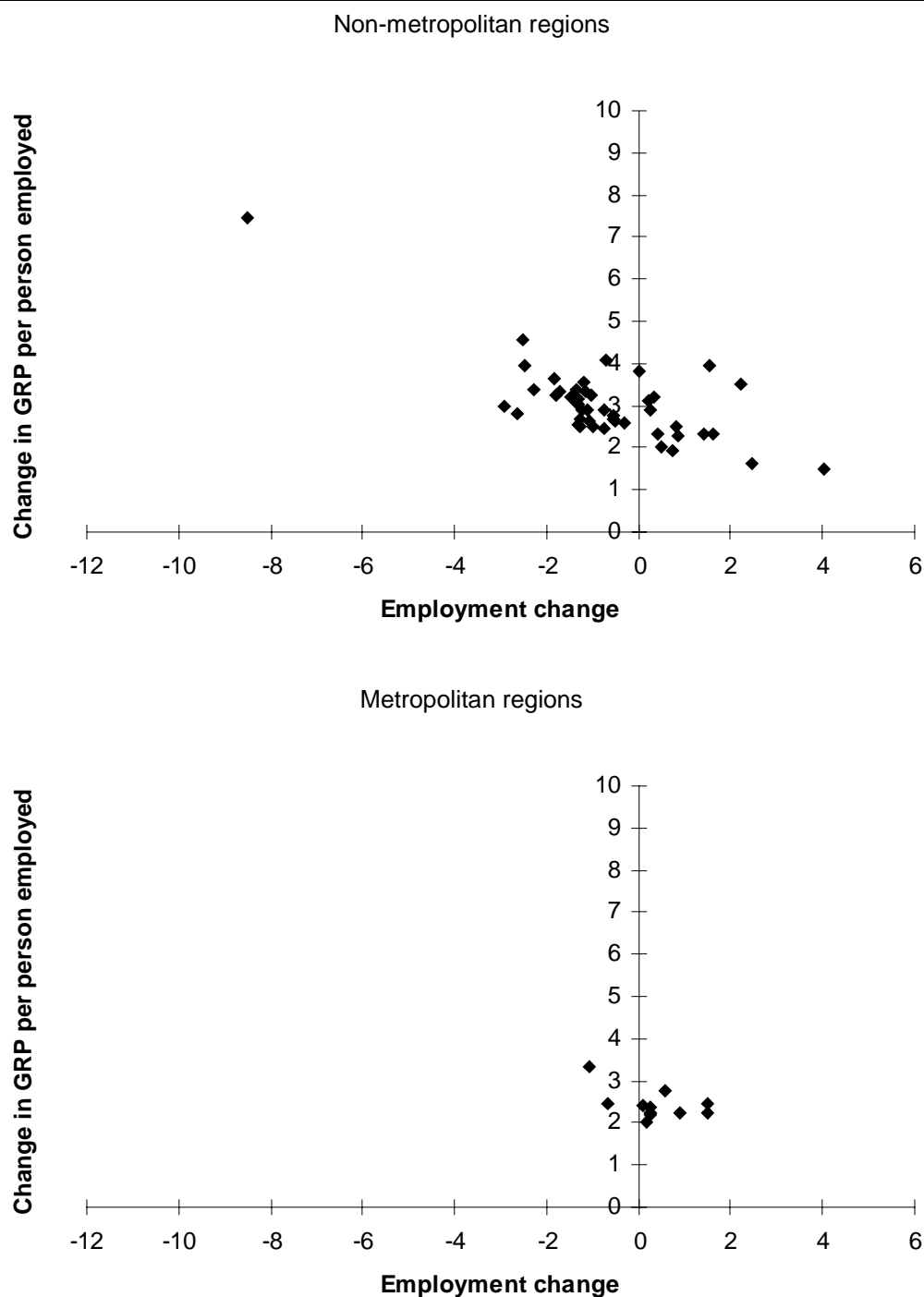
the last two columns of table 10.6. A comparison of increases in gross regional product per person employed with changes in employment is given in figure 10.3. Metropolitan areas — capital cities and regions which include Newcastle, Wollongong and Geelong — are shown separately from the country regions.

As indicated in the figure, there is a much wider variability of increases in average income per person employed in country regions than in metropolitan regions. Most metropolitan regions are estimated to achieve smaller increases in average incomes per person employed than the majority of country regions.

Also indicated in figure 10.3 is the much wider variability in employment effects across country regions than for metropolitan regions. Most metropolitan regions are estimated to make small gains in employment, whereas many country regions are estimated to make small losses. In regions where infrastructure reforms were

implemented earlier in the 1990s, much of the estimated decline in employment will have occurred already.

Figure 10.2 **Estimated long-run effects of NCP on regional employment and gross regional product per person employed**
(per cent)



Source: Monash-RR estimates.

Figure 10.3 illustrates a general tendency for the regions estimated to have the largest job losses from the direct effects of labour-saving NCP reforms to have the highest increases in income per person employed. For example, because of reform of electricity generation, Gippsland in Victoria is estimated to have the largest net loss of jobs, but the highest increase in income per person employed. Conversely, the Goldfields–Esperance region of Western Australia is estimated to have the largest net gain in jobs (because of the benefits from electricity reform for minerals processing), but the smallest increase in gross regional product per person employed.

This does not necessarily mean that those remaining in employment in areas estimated to experience job losses will have incomes which are high relative to the national average. It merely means that the estimated *increase* in income per person employed can be above average if the regional output gain is distributed among those engaged in production in the region.

The estimated relocation of jobs in large part reflects estimated increases in regional output. However, there is no such obvious association between the estimated increases in gross regional product per person employed and estimated increases in regional output.

As noted above, a relocation of jobs follows from the assumption that the NCP reforms are not directly associated with any overall increase in employment which would otherwise occur as a result of the growth and development of the economy more generally. If the NCP reforms were to reduce the future unemployment rate by 1.5 percentage points, then this would be equivalent to employment being 1.65 percentage points higher than otherwise. In terms of figure 10.3, the outcome would be like moving the vertical (y) axis to the left so that all but 10 (ie 47) regions would be estimated to gain in employment terms. This compares with the 24 regions shown to gain jobs in the figure.

In summary, the estimates of long-run effects from the model indicate there are considerable gains to the Australian community from implementing the NCP reforms. Within this national gain, there is a quite varied set of results, consistent with the evidence reported earlier on the effects of NCP to date. Individual reforms are estimated to produce different effects and those effects are estimated to differ across regions. Overall, a wider dispersion of results is likely among country regions than metropolitan regions in terms of output, employment and average income per person employed. Metropolitan regions are estimated to experience increases in output close to the national average, slightly above average employment outcomes and slightly below average increases in incomes per person employed.

FINDING 10.2

There would appear to be significant gains for the Australian community, and for country Australia as a whole, from implementing NCP reforms. The reforms are likely to have a more varied effect in country regions than in metropolitan areas, with implementation costs of some reforms being more evident in the former.

10.4 Long-run NCP impacts in the context of broad economic forces

To help understand the significance of the long-run regional changes likely to flow from the additional economic output made possible by the NCP reforms, it is useful to consider how they compare with ongoing changes that are affecting rural and regional Australia stemming from broader economic and social forces over which governments often have little influence. In this way, an objective view can be formed of the relative contribution of NCP reforms to observed regional changes and as to whether or not they are adding to or offsetting those forces. The broader economic and social changes which have occurred in country Australia are discussed in part A of this report.

Broad economic forces considered by the Commission to have contributed to the changes that have been observed in the economy and influential to changes in country Australia include:

- changes in general economic conditions, such as growth in population, increases in the labour force, general productivity growth and changes in border assistance;
- declining terms of trade for agricultural and mining commodities;
- increases in net investment in mining activities;
- improvements in productivity in broadacre agricultural, dairy and mining activities;
- increases in inbound international visitor (including tourist) spending; and
- changes in the level and composition of government spending.

To provide an indication of how important these selected broad economic forces have been in comparison with the estimated maximum potential effects of the selected NCP reforms, the Commission used the same model, MONASH-RR, and estimated the economy-wide and regional effects of measured changes in those

forces over the decade to the mid-1990s. The detailed results are given in the modelling supplement to this report.

The net effect of the selected broad economic forces was estimated to account for around 2.2 percentage points of the total of 3 per cent national average annual output growth from the mid-1980s to the mid-1990s. As would be expected, the estimated combined effects of increases in national population and employment levels, general improvements in productivity levels and reductions in border assistance increased output and employment in all 57 regions across Australia. However, the estimated regional output and employment effects of the other factors varied substantially.

ABS data show that there are 12 regions which had jobs losses over the decade to the mid-1990s. These are mainly rural and remote regions, for which declining real export prices of agricultural commodities and associated productivity improvements in rural production were estimated to more than offset jobs growth from the other broad economic forces.

As noted above, some NCP reforms have already been implemented and are contributing to some of the observed changes in employment — for example, electricity reforms in the LaTrobe Valley area of Victoria. Nevertheless, the results of the modelling indicate that many of the observed job losses in regions can be traced to the broad economic forces identified above, such as the deteriorating terms of trade for agriculture.

Comparison of the estimated effects of NCP on employment with changes which occurred over the decade to the mid-1990s provides an indication of the ease or otherwise of adjustment. The focus is on employment because regionally disaggregated output data are not available. In table 10.7, the estimated employment effects of NCP on regions relative to the actual changes which occurred in those regions are summarised.

With the assumed unchanged effect of NCP on aggregate employment, the relocation of jobs associated with the NCP reforms is estimated to increase jobs in

Table 10.7 Estimated relocation of jobs from NCP relative to employment changes over the decade to the mid-1990s

<i>Decade to the mid-1990s</i>	<i>No. of regions</i>	<i>Estimated NCP effect</i>	
		Gain	Loss
Lost employment	12	3	9
Gained employment	45	21	24
Total number of regions	57	24	33

Sources: MONASH-RR estimates; ABS (*Census of Population and Housing*, Cat. no. 1502).

24 regions and reduce employment in 33 regions. Of the 24 regions with estimated increases in jobs, three are regions which lost jobs over the last decade. However, table 10.7 does not show the magnitude of the gains and losses in employment relative to the actual employment changes over the decade to the mid-1990s.

In the majority of regions, the estimated effect of NCP is either to increase employment or to reduce it by an amount which would be absorbed by less than one year of recent employment growth. In five of the 57 regions, five or more years of recent (relatively slow) growth would be needed to offset job losses from NCP. There are nine regions which lost jobs over the decade to the mid-1990s and which are estimated to experience further declines in employment as a result of job relocation associated with NCP reforms.

The nine regions in which the NCP relocation of jobs is estimated to add to past job losses and the five regions in which the estimated job losses are equal to or greater than five years of past jobs growth are shown in figure 10.4. Collectively they account for about 25 per cent of Australia's land area, but only 6 per cent of national employment.

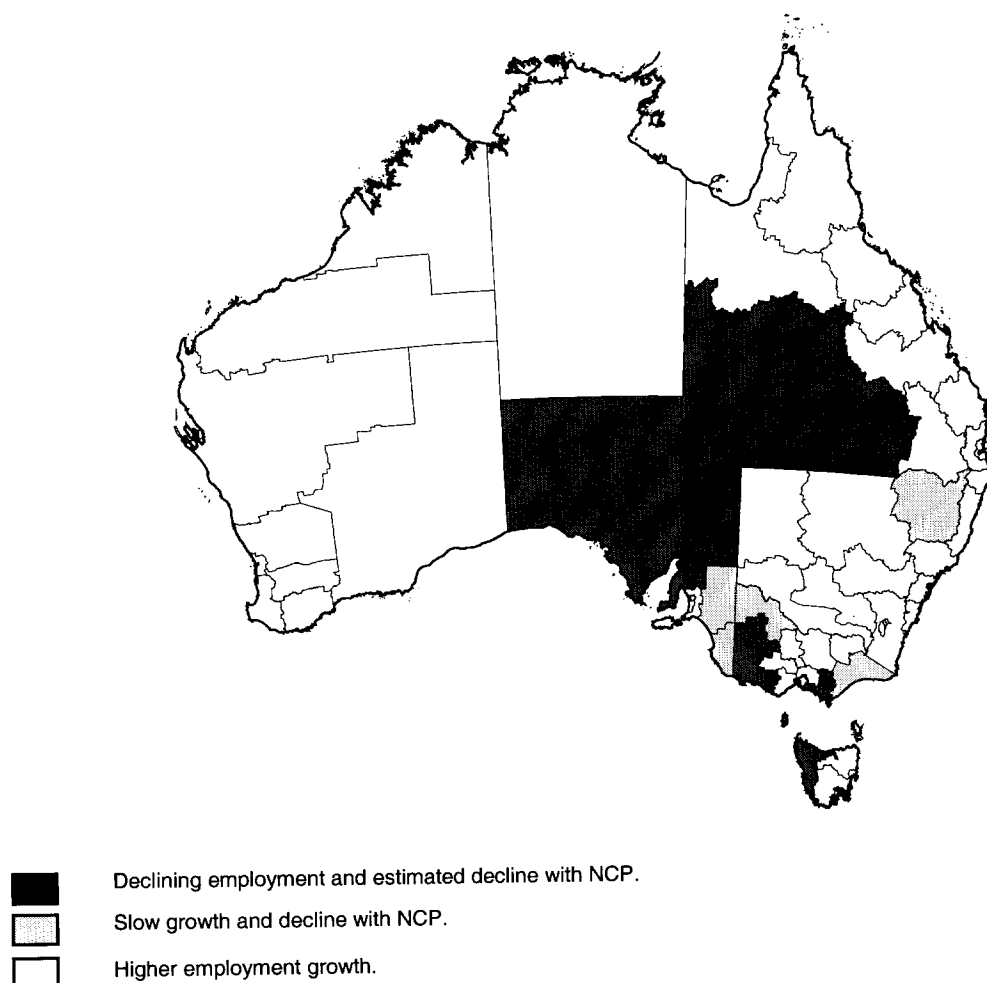
FINDING 10.3

The effects on most, but not all, regions of the NCP reforms are likely to be less significant than those resulting from the broad economic forces which are continually reshaping economic and social conditions in Australia.

Relocation of jobs has costs both for the individuals involved and their communities. Although the degree of relocation with implementation of NCP is in most cases well within normal experience, some may argue that some NCP-related relocations are an additional impost that is better avoided. The current analysis indicates some of the economic costs of not proceeding with reform. The first cost would be the forgone permanent increase in national output, estimated to be equivalent to about one year's growth.

The second cost would be incurred by the regions. The analysis of the increases in gross regional product per worker shows that the greatest income benefits tend to accrue in regions which face the largest adjustment in terms of job losses. Avoiding reform in such regions would lower regional output and incomes relative to other regions. For example, in an independent study of NCP-related reforms, Madden (1995) examined the implications of individual regions opting out of the reform process. This analysis showed that if Victoria did not participate in utility reform, its increase in gross state product from this type of reform would be reduced by about one-third and its real consumption gain would be nearly halved.

Figure 10.4 **Estimated employment effects from NCP reforms and over the decade to the mid-1990s**



Source: Monash-RR estimates.

In addition, if other regions undertake reform, incomes in the non-reform regions would again be reduced relative to other regions. These losses would be added to any regional output and income disparities which exist for other reasons, such as changing terms of trade and slower than average productivity growth.

The third cost would arise from not achieving improved business performance more generally as a result of extending the scope of competition in the economy.

Overall, a strategy of non-implementation of NCP reforms on a selective basis is likely to raise regional income disparities. It would also deny the community the benefits of the reforms.

Estimated effects of NCP derived from modelling are no more than broadly indicative. Nonetheless, together with other available evidence, including costs

associated with implementing some reforms, they support the Commission's assessment that there will be net benefits for Australia as a whole from NCP. Country Australia as a whole is likely to benefit from NCP, although there is likely to be more variation in the incidence of benefits and costs among regions. The Commission notes that, to date, the reforms implemented have provided greater benefits to metropolitan areas.

Part C Improving NCP and achieving better outcomes for country Australia

Part C of this report focusses on measures which could be taken to improve the implementation of NCP and to ensure that country Australia shares in its benefits and can cope with change.

Chapter 11 addresses common misconceptions about NCP and discusses how they might be overcome.

Chapter 12 considers approaches to facilitating the flow of benefits and/or mitigating the transitional costs of NCP. It also examines some policy measures which are designed to provide country people with reasonable access to services and which can enhance regional economic activity.

Chapter 13 discusses the current suite of policy instruments available to assist people in country regions (and elsewhere) to cope with adjustment costs where change is substantial, including the case for region-specific adjustment assistance programs.

11 Improving the operation of National Competition Policy

It is evident that particular NCP-related reforms have adversely affected some country communities. Nonetheless, it is also apparent that NCP has become a ‘scapegoat’ for the deleterious economic and social effects arising from a range of other factors. This reflects a lack of understanding about the aims, mechanisms and boundaries of NCP and how it interacts with other government policies — which can be traced to inadequate information strategies and, in some instances, political expediency. There is scope to improve awareness about, and the operation of, NCP.

11.1 Introduction

NCP is not well understood in many sections of the community. This reflects inadequacies in communicating the nature of NCP in an environment where many areas of country Australia are feeling the effects of pressures for change (see part A). These pressures include long-term demographic trends, falling commodity prices, the effects of technological progress and changes in government policies, including NCP reforms.

This chapter aims to improve community understanding of areas of NCP which attracted considerable comment from participants, by:

- clarifying what NCP does *not* require and the extent to which it encroaches on the sovereignty of State and Territory Governments; and
- providing some guidance on the practical application of the ‘public interest’ provisions of NCP.

The chapter also discusses some operational issues raised by participants, including:

- calling a halt to NCP;
- NCP implementation timetables;
- competition policy regulation; and
- the role of the National Competition Council (NCC).

For many participants, concerns about NCP relate mainly to the manner in which it has been implemented, rather than with the policy and its principles. For example, the South West Development Commission said that:

Implementation of the Policy, particularly misunderstandings and interpretation difficulties, rather than the Policy itself, appears to be the problem ... (sub. 31, p. 2)

However, it is evident that for a great many people in country Australia, NCP is a catchcry for an outbreak of 'economic rationalism' which is seen to threaten their way of life — the Watering Australia Foundation (WAF) entitled its presentation at the draft report hearings as 'National Competition Policy: a fiendishly complicated and unworkable mechanism' (sub. D245). NCP is widely perceived as being responsible for the withdrawal of government services, the closure of country bank branches, the demise of local businesses and sporting teams and population decline. It has also been linked to higher rates of crime, drug abuse and suicide.

The Commission has been made aware of concerns about these broad economic and social circumstances during its extensive visits and consultation program, and from submissions and public hearings. These circumstances also have been brought to the attention of members of Commonwealth and State parliaments, some of whom appeared before the Commission to relay these concerns, and their views on other issues, at the draft report hearings.¹

It is widely believed that the perceived negative impacts of NCP will continue:

Twenty years from now, I believe the activities of the NCC will be fully accepted for what they are: a regrettable social disaster, that has through the application of blinkered and outmoded economic rationalist theories, proved to be catastrophic (Tasmanian Independent Wholesalers, sub. D254, p. 1)

Assessing the veracity of these types of claims requires an understanding of NCP principles (chapter 4), its effects (chapters 5–10), an appreciation of what NCP does not require (sec. 11.3–11.4) and of the role of the 'public interest' test (sec. 11.5).

11.2 Why is improved understanding of NCP important?

NCP has been associated with many changes which are beyond the capacity of governments to affect (eg world commodity prices). This confusion is perhaps understandable because, as Associate Professor Sorensen has noted, it is difficult:

¹ For example, Ernie Bridge, MLA (trans., pp. 216–315, pp. 737–72); Dick Adams, MP (pp. 396–414); Lawrence Springborg, MLA and Russell Cooper, MLA (pp. 603–26); Mike Horan, MLA (pp. 696–705); Bob Katter, MP (pp. 810–37); Rob Borbidge, MLA (pp. 961–74); and Heather Hill, from the One Nation party (pp. 1013–31).

... to attempt to separate out the effects of Competition Policy from a mass of secular trends engulfing Rural Australia. ... the enormous and interconnected roles of changing technology (especially transport, telecommunications, farming and mining) international commodity prices, entrepreneurial capacity, demography, and lifestyle preferences in shaping Australia's space economy. Government controls none of these to any significant degree. (sub. 58, p. 2)

In terms of areas within the control of governments, the Regional Development Council of Western Australia stated that:

Many of the concerns of regional communities stem from the inappropriate implementation of regulatory reform including the rationalisation of government services. ... from the perspective of regional customers and stakeholders there is no discernible difference between the impacts of Competition Policy and other regulatory and micro-economic reform processes and trends, such as privatisation and rationalisation of private sector and government services that are currently occurring. (sub. 33, p. 2)

The Commission acknowledges that, for many people, the cause of adjustment pressures matters little. However, establishing cause and effect is vital for effective policy evaluation. Otherwise, there is a risk that NCP could be wrongly condemned (or acclaimed) on the grounds of effects of other government policies with the result that socially beneficial reforms may be derailed without adequate analysis of their benefits and costs. The Tasmanian Government highlighted these risks:

Of some concern is the tendency for NCP to be 'blamed' for a range of social and economic circumstances that have emerged in recent times, such as reduced services to rural and regional areas, low commodity prices, the sale of government assets and unemployment. Such conclusions tend to be based on misconceptions about NCP which, at the same time, ensure that the important benefits it will provide are often overlooked. (sub. 198, p. 6)

Moreover, failure to identify whether a particular effect derives from NCP reforms or from other policies has ramifications for the capacity of those affected to target calls for remedial action. In the absence of clear information about the underlying cause of a particular adverse outcome, blame can be shifted across jurisdictions and institutions so that the pleas of those adversely affected can be easily ignored and action to overcome the problem could be ineffective or might even exacerbate it.

FINDING 11.1

Many people have a poor understanding of NCP and its effects. As a consequence, it has been blamed for adverse social and economic impacts resulting from a range of sources. This state of poor knowledge involves a risk that worthwhile reforms may be forgone and actions to overcome problems may be misdirected and ineffective.

In this context, it is useful to set out what NCP does not require.

11.3 What NCP does not require

Judging by inputs into this inquiry, in many cases, the demarcation between NCP reforms and other government policies is not widely understood. For example, the Australian Catholic Social Welfare Commission (ACSWC) captured the essence of the views of many participants in submitting that:

The community has witnessed the products of the NCP in negative terms including, but not limited to: public assets placed on the market and disposed of; deregulation of the financial sector ... which has resulted in increased bank fees; the decentralisation of industrial relations ... increased downsizing and privatisation of the public sector and, welfare services have been subject to strategies of fiscal restraint through targeting of assistance and resources and the contracting-out of services ... (sub. 160, p. 19)

In fact, NCP does not require these actions — see box 11.1.

Box 11.1 What NCP does not require:

- asset sales and privatisation;
- compulsory competitive tendering;
- contracting-out;
- financial market deregulation;
- industrial relation reforms;
- reductions in the size of the public sector;
- council amalgamations;
- reductions in welfare and social services; or
- removal of community service obligations (CSOs).

In response to the draft report, the ACSWC contended that the Commission had met the concerns of participants with the following three responses:

That NCP is a discrete set of policies limited to the three NCP Commonwealth/State agreements; that NCP reforms are separate from other competition-based reform policies; and, that the impact of NCP is divorced from many discretionary policy choices of governments to downsize and withdraw public infrastructure and services, to contract out public works, to reduce industry assistance, regional development and other forms of structural adjustment assistance etc – Clearly, the ACSWC along with the community argue that these decisions are informed by and premised on NCP. (sub. D292, p. 2)

NCP, and consequently the purview of the NCC, relates only to the three intergovernmental agreements (see chapter 4) entered into by the Commonwealth

and all State and Territory governments. NCP competition payments are therefore unrelated to decisions to ‘downsize and withdraw public infrastructure and services’, ‘to contract out public works’, or ‘to reduce industry assistance, regional development and other forms of structural adjustment assistance’.

However, as the ACSWC has identified, many policies reflect the *discretionary* choices of governments. The Commission also concurs with the view that NCP is consistent with a broad suite of other microeconomic reforms. Reforms such as competitive tendering for government services share a similar underlying premise that greater competition will enhance economic efficiency and improve overall living standards. Furthermore, it is also correct to presume that after instituting improved financial and accounting practices to meet, say, competitive neutrality objectives, some governments might opt to contract out, or even privatise, some of their activities. As the Townsville City council said:

... if you introduce competitive neutrality into your business operation and then three years down the track you find that business operation cannot survive under competitive neutrality, the policy-making body may then turn around and say, ‘We’ve got to sell the assets, We’ve got to have industrial relations reform. We’ve got to ... downgrade’ ... (trans., p. 778)

Similarly, the increased transparency that can come from NCP reforms may also lead governments to look closely at the cross-subsidisation of certain services or to elect to change, for example, the level of or manner in which community service obligations (CSOs) are delivered.

The provision of CSOs is discussed in chapter 12. In this context, it is important to note that, in relation to social goals, as the NCC has stated:

... it is entirely consistent with competition policy for governments to increase spending on welfare, to increase the level of government funded or subsidised social services, to retain businesses in public ownership and so on. (NCC 1998a, p. 48)

While NCP can be seen as a recent addition to a range of microeconomic reforms, it is critical (for the reasons outlined in the previous section) to distinguish the *requirements* of NCP from the use of *discretionary* policy. In some instances, the obfuscation of policy choices — for example, claims that NCP has forced certain reforms — is deliberate.

11.4 NCP and State and Territory governments

When the national approach to competition policy for Australia was formulated, the general principles behind the NCP proved to be unexceptionable and all nine signatory governments committed themselves to the reforms and associated grants.

Recently, however, NCP has been questioned by some of these jurisdictions. Several politicians have portrayed NCP as an ideological crusade by the NCC which is usurping the power of parliaments by dictating to the States and Territories on matters such as how many casinos they need. Others have wrongly attributed certain policy reforms to NCP. For example, it has been claimed that the privatisation of government utilities and compulsory competitive tendering are necessary to meet NCP commitments.

In November 1998, the Queensland Parliament passed a motion condemning NCP:

It is about time National Competition Policy was changed because of the damage it has wreaked by destroying jobs throughout rural and regional Queensland. (Beattie 1998)

Adverse reaction to NCP from some of its signatories has centred on claims of a loss of State sovereignty. However, perusal of the intergovernmental agreements indicates that the State and Territory governments:

- can implement their own prices oversight for government businesses — some jurisdictions have opted to establish their own mechanisms, others have not;
- are free to determine their agendas for meeting competitive neutrality (CN) principles — there are marked differences between States' CN policies;
- are free to determine how to reform their public monopolies — significantly different approaches have been adopted by jurisdictions and some have gone further than required under NCP by privatising businesses;
- can determine how competition principles will be applied to local government — each jurisdiction's approach properly reflects its circumstances; for example, Queensland has many local governments which provide large-scale infrastructures, whereas other jurisdictions do not;
- can institute their own effective access regimes, rather than adhere to the national regime — some governments have their own access regimes dealing with specific infrastructure (eg gas pipelines, shipping channels and rail networks);
- can continue to deliver CSOs — for example, the water reform agreements specify that a water service can be delivered at less than full cost, provided that the subsidy is disclosed and, ideally, paid to the provider as a CSO;
- can institute their own legislation reviews — State and Territory governments have completed or are presently conducting around 1800 reviews; and
- have recourse to 'public interest' criteria to allow consideration of non-economic factors — for example, a South Australian review found that, although aspects of its Water Resources Act are restrictive, it provides a net public benefit by reducing environmental damage and therefore should be retained.

The area where NCP is perceived to exert a stronger influence on State sovereignty is through the CoAG water agreement. Water reform is a point of contention in Queensland as the Commonwealth Government has decided to suspend part of Queensland's competition payment for non-compliance in this area — in particular, Queensland's decision to proceed with a dam which the NCC claims does not come out favourably on benefit-cost or environmental grounds (see chapter 4). Some consider the requirement for new water infrastructure to meet a rate of return as inimical to national development (Hon. Rob Borbidge, MLA, trans., p. 970).² The Queensland Government questioned the 'NCC's technical capacity to assess the merits of this scheme or to "second guess" the legitimate decision making role of the Queensland Government on matters of public interest' (sub. D302, p. 3). It argued that, because conventional economic analysis tools fail to provide a useful basis for judgement in such cases, it has a role in making a value judgement.

Indeed, there is an 'exceptional circumstances' clause in the water agreement that provides for a relaxation of the criteria where there is a demonstrable community benefit. Moreover, a State can build any dam it sees fit. Under NCP, if a State or Territory considers that an agreed reform is not worth pursuing, or wishes to undertake an action that is contrary to its NCP agreements, it is free to do so. However, if that action cannot be justified on 'public interest' grounds, the Commonwealth Government can reduce that State's competition payment.

In sum, the agreed NCP commitments provide a high degree of flexibility for the States. This is acknowledged by some jurisdictions. For example, the Tasmanian Government submitted that:

... the NCP agreements do not, in general, compel governments to introduce specific reforms. For example, they do not require privatisation of government business or contracting out and do not expect that deregulation will be the outcome of an independent review. In fact, NCP provides governments with flexibility to deal with circumstances where competition might be inconsistent with particular objectives that are valued by the community. For example, under NCP, there is no restriction on governments subsidising social services to rural and regional Australia. (sub. 198, p. 6)

The Western Australian Treasury said that:

The impacts of NCP are to a large extent within the hands of Western Australians, since there is considerable flexibility in interpreting the agreements and scope to consider more than purely economic or commercial considerations in choosing to what extent and by what mechanisms to implement the reforms. (Western Australian Treasury 1998, p. 4)

² As noted in chapter 5, new water infrastructure is not required to generate an operating profit from day one — no new dam would be likely to meet such a criterion.

As the Hon. Rob Borbidge, MLA, Queensland submitted:

The Commonwealth, the State, and the Territory governments, *not* the National Competition Council, *not* the Productivity Commission, *not* the Australian Competition and Consumer Commission, are the architects and the implementors of NCP.

It is high time all parties to the agreement were up-front in accepting that responsibility. (sub. D279, p. 4)

Given the flexibility available to all jurisdictions, it is likely that criticisms of NCP by governments reflect responses to a range of factors, including:

- *Resistance to economic reform*: Resistance to reform in general has increased as demonstrated by recent electoral support for groups seeking to oppose a continuation of a range of microeconomic reforms;
- *Poor management of reforms*: In many areas, governments have failed to address adequately the social dislocation that can accompany change. Managing reform — including the provision of adjustment assistance — is a legitimate concern for many people in country Australia, as country areas often have borne the brunt of adjustment from, for example, employment losses associated with reform of government electricity and rail businesses, many of which pre-date NCP. (The role of governments in assisting people to cope with change is discussed in chapter 13);
- *Reforms becoming more difficult*: The first tranche of NCP was mainly about processes — for example, putting in place price oversight arrangements — whereas the second and third tranches require progress with ‘on the ground reforms’ (see chapter 5); and
- *Vested interest lobbying*: NCP challenges the protected status of some groups which have condemned processes which might undermine that position and result in significant changes in the assistance provided to them.

Finally, it is apparent that it is convenient for some politicians to depict NCP (or the NCC) as responsible for reforms which are unpopular with some groups in order to deflect criticism. The State Member for Gippsland West, Susan Davies MP alluded to such possibilities:

Competition Policy has been used in Victoria to justify the implementation of a very radical and rapid social change agenda. The commitment appears to be more ardent than is apparent in other states, based, I would submit, on ideological fervour rather than actual necessity as per the legislation. (sub. 87, p. 1)

A tendency to attribute inappropriately certain policy actions to NCP was also found by the Senate Select Committee on the Socio-Economic Consequences of NCP:

At the higher levels of NCP administration there appears to be a good understanding that the policy is a tool that Governments can use to facilitate the efficient use of

resources and to achieve the outcomes — both social and economic — that the community wants. The Committee is aware that NCP has been used as an excuse by some agencies to realise other policy objectives. (Quirke 1999, p. xi)

FINDING 11.2

Without a clear delineation of responsibility for reform initiatives, there is scope for jurisdictions not to take responsibility for potentially unpopular discretionary actions, but rather to imply (explicitly or implicitly) that they are required to do so under NCP.

11.5 Measures to improve understanding of NCP

A prerequisite for improving the operation of NCP — which forms the basis for the rest of this chapter — is to enhance the extent of understanding about it in the community. Better dissemination of accurate information about NCP will:

- assist those charged with implementing reforms in country Australia to understand better what is required under their respective State or Territory NCP agreements and the options to meet these commitments;
- assist those (potentially) affected by NCP reforms to provide informed public input into review processes;
- reduce the possibilities for NCP reforms to be wrongly condemned or applauded for the effects of unrelated sources of change, thereby jeopardising the potential for improvements to its operation; and
- make governments more accountable for policies which they have undertaken that have little to do with commitments entered into under NCP.

RECOMMENDATION 11.1

All governments should take steps to ensure that the information they provide about their National Competition Policy undertakings is:

- *accurate in terms of both its content and relationship to other policies; and*
- *publicly available in a readily accessible form and is provided to those implementing, and those most likely to be affected by, National Competition Policy reforms.*

The South Australian Government said that it ‘already provides this information’ (sub. D298, p. 4). The Balanced State Development Working Group (sub. D273) considered that ‘publicly available’ and ‘readily accessible’ should include availability of the information in printed and computer form to every shire council and principal library in each shire. The Commission sees merit in this suggestion.

Misgivings about NCP reinforce the need for review processes to be conducted in a way which facilitates public participation and ensures that the reports address all relevant issues. For example, it is important that legislation review reports are: publicly available and accessible; easy to read; demonstrate how the terms of reference have been followed and met; and explain the evidence underpinning decisions. It is also important that, in the case of major reviews, open, transparent and independent comment on review outcomes be encouraged.

Given widespread misunderstandings about NCP in many parts of the community, the Commission considers that it is essential for NCP review processes and reports to adopt a strong educative role.

RECOMMENDATION 11.2

Governments should require major legislation reviews to go further than simply determining compliance or otherwise with National Competition Policy principles. Reviews should be based on genuine public input, be conducted in a transparent manner, outline the likely distribution of costs and benefits, and inform interested parties why and how reform, or maintenance of the status quo, will lead to superior outcomes and performance than the alternatives.

11.6 Operation of the ‘public interest’ provisions of NCP

Clause 1(3) of the Competition Principles Agreement (CPA) of NCP provides for wider ‘public interest’ matters to be considered in weighing up the benefits and costs of reforms relating to competitive neutrality, public monopolies and legislation reviews (see chapter 4). NCP therefore provides a framework for including in decision-making a range of non-economic factors such as those associated with regional development, welfare and equity.

‘Public interest’ — a contextual setting

Some participants sought a very broad interpretation of ‘public interest’. Australian Justice For All (AJFA) argued:

The definition of ‘public interest’ needs to take on a broader meaning within economic and social impacts; the widening gap between rich and poor; the isolation of rural communities; how living standards and cost benefits equate to competition and how far they can fall without increased productivity. (sub. 102, p. 4)

The comment from AJFA serves to highlight an important point about the role of the ‘public interest’ provisions of NCP. Some of the economic and social impacts

identified by AJFA, such as income differentials between rich and poor, are better addressed through more direct mechanisms such as the tax-transfer system and the social safety net — a point noted by the Queensland Chamber of Commerce and Industry, South West Regional Council:

Where governments seek to achieve some social equity or other (re)distributional outcomes on the basis of ‘public interest’ or ‘public benefit’, these should be pursued through other policy channels, such as taxation and/or public expenditure. (sub. D225, attach. 2, p. 5)

NCP operates alongside, and in conjunction with, other policies which aim to address directly environmental, regional development and social concerns. Better community outcomes may be achieved by implementing a particular reform and using more specific policies to address social concerns. This *may* be preferable to using the ‘public interest’ test in a way that results in a reform being stalled or its benefits diminished. As the Commonwealth Treasury has cautioned:

Governments have means of promoting fairness of income distribution including transfer payments and taxation systems and via programs to provide subsidised goods and services. Competition policy, on the other hand, is a very blunt instrument for achieving fairness of outcomes: if equity considerations were allowed to override ... efficiency goals ... competition policy could make the community poorer in the aggregate sense. This would act to reduce the level of income available to redress income distribution via transfer payments and the taxation system. (Commonwealth Treasury of Australia 1991, p. 6)

This highlights the importance of using the most appropriate instrument to meet particular objectives. Because reform invariably involves winners (often diffuse) and losers (typically concentrated), a short-term or narrow view of costs and benefits could enable the ‘public interest’ test to be used to halt or modify beneficial reforms. That said, where proceeding with a policy change would lead to social costs which unequivocally outweigh the community benefits, the appropriate use of the ‘public interest’ test as part of the benefit–cost assessment of the reform could legitimately tilt the balance in favour of the status quo (or a modified reform) in order to avoid such costs.

Professor Quiggin (sub. D215) considered that the Commission may subscribe to the view that non-economic (ie ‘public interest’) criteria should be discarded in all cases in favour of pure efficiency criteria. In fact, the Commission considers that it is proper to consider both economic and non-economic criteria when assessing the benefits and costs of particular reform initiatives.

Moreover, the ‘public interest’ test was agreed upon by nine sovereign governments and would be, in all likelihood, difficult to renegotiate. Thus, the key issue is not the merits or otherwise of the test, but its appropriate application. The issue occupying

the minds of many participants is what constitutes ‘appropriate’ application. To date, there has been little in the public domain to inform this debate. This issue is taken up next.

Poor understanding of the ‘public interest’ test

During the course of the inquiry it became apparent that, given the scope for NCP reforms to affect communities in country Australia, many participants were poorly informed about the ‘public interest’ test. For example, the Shire of Dandaragan, like many local government authorities, considered that:

Local government is not receiving sufficient guidance from government on such issues as defining public interest. (sub. 50, p. 2)

The lack of familiarity with NCP in general, and the ‘public interest’ test in particular, was reflected in many incorrect comments such as the following from the Shire of Jerramungup.

Competitive Neutrality does not accept the governments’ obligations to provide universal access to essential services and provide certain customer service obligations on the basis of equity. (sub. 1, p. 3)

The lack of awareness of the existence, scope and practical operation of ‘public interest’ highlights a failure in the provision of information. Whereas officials in the capital cities tend to have a sound appreciation of the ‘public interest’ test, many of those charged with implementing NCP-related reforms in country Australia are poorly informed. Governments are trying to rectify these problems — for example, Queensland has instituted training for local governments to explain the practicalities of public interest assessments (NCC 1999a, p. 98).

FINDING 11.3

The manner by which restrictions on competition may be considered under NCP is not well understood by many people. This is consistent with a wider lack of effective communication about, and hence appreciation of, what constitutes NCP and how it is implemented.

Practical application of the ‘public interest’ test

Apart from problems associated with a lack of understanding about the ‘public interest’ test, a key issue raised by participants revolves around its *application*. For instance, the National Farmers’ Federation noted:

Matters that need to be considered in the public benefit test are diverse and frequently in conflict. For example, satisfying equity and social welfare criteria are frequently antagonistic to efficient allocation of resources. (sub. 144, p. 24)

The Senate Select Committee on the Socio-Economic Consequences of the NCP also reported general confusion over what constitutes ‘public interest’. It considered that ‘this confusion then translates into confusion on how to apply the “public interest” test’ (Quirke 1999, p. xii). Its views are summarised in box 11.2.

Box 11.2 Senate Select Committee views on the ‘public interest’ test

On the ‘public interest’ test, the Commission’s and the Committee’s inquiries found that understanding of the ‘public interest’ test is poor and that reviews need to be transparent and better explained. Both inquiries raised concerns about different approaches to ‘public interest’ across jurisdictions and noted that problems stem from the *application* of the ‘public interest’ test.

On the confusion about the ‘public interest’ test, the Committee stated that it is:

... concerned that this confusion when combined with the administrative ease of simply seeking to measure outcomes in terms of price changes, risks an administrative response of application of a narrow, restrictive, ‘public interest’ test rather than one which takes account of the wider social impacts ...

Responsibility for administration/implementation of the NCP has, in all jurisdictions, been placed in Treasury or Premiers portfolios ... In the Committee’s view this has led to a predominantly economic rather than multi-disciplinary approach involved in the implementation of NCP and in particular the ‘public interest’ test ... (p. xii).

The Commission has difficulties with inferences which could be drawn from this view.

- *The ease of simply measuring outcomes in terms of price changes.* It would be incorrect to infer that NCP-related assessments are conducted simply on the basis of price changes. Such an approach would indicate only the extent of income transfers and could not lead to an informed judgement about efficiency or net community benefits or costs;
- *Implementation of NCP rests with State Treasuries and Premiers’ Departments which have an economic, rather than multi-disciplinary, approach.* It is proper that this role rest with the coordinating agencies of government which have an over-arching State-wide (or economy-wide) view which accounts for the interests of producers, users and consumers. This does not preclude participation of agencies with a ‘client-oriented’ focus — independent review panels can be, and are, drawn from outside of central agencies. A transparent review process, taking submissions from all interested parties, should adopt a ‘multi-disciplinary’ approach.

Source: Quirke (1999, p. xii and pp. 101–7).

Professor Quiggin considered that public interest matters are being ignored, particularly in relation to requirements for compulsory competitive tendering in

Victoria and for commercialisation of local government services in other jurisdictions:

... local governments are effectively prohibited from favouring local contractors, even if the closure of those businesses would lead to the contraction in the local economy ... (sub. 12, p. 25)

In terms of NCP *principles*, this statement is incorrect. It could, however, reflect practices in some jurisdictions. Indeed, Professor Quiggin acknowledges that governments could have done things differently — that is, competitive tendering is not required under NCP — but considers that ‘this does not help local governments much’ (sub. D215, p. 1).

The Commission has been made aware of cases where local governments have used ‘public interest’ considerations to retain local employment. For example, Canegrowers Burdekin noted that Burdekin Shire Council’s decision to maintain local employment, rather than contract out its services, had come at a cost to ratepayers (chapter 8).

Glenelg Shire Council (sub. D253) provided a similar example based on a study of the impact of NCP on three local councils.

\$500 000 road works contract: competition from a number of large metro-based firms, one of whom submitted a tender \$30 000 lower than the in-house team, yet the contract was awarded to the in-house team ... The reasons for awarding the contract to the in-house team (a decision made by Council against the recommendation of the tender evaluation panel) were: (i) the retention of local expertise and resources, (ii) the maintenance of a competitive situation (ie concern about possible private monopoly in the future with the loss of in-house capacity and benchmark), and (iii) the retention of economic activity within the local community. (Ernst and O’Toole 1999, p. 8)

The study also flagged concerns by senior management that this decision could send a signal to private bidders to stay away, with adverse outcomes for ratepayers.

Thus, some of the concerns expressed to the Commission may highlight policy actions initiated by some governments under the banner of NCP.

These issues aside, there are difficulties associated with the application of the ‘public interest’ test. There are no defined ‘weightings’ attached to the ‘public interest’ criteria. While this can provide the flexibility to take into account the individual circumstances of particular reform initiatives, it means that those conducting reviews do not have recourse to a simple template and must consider all relevant factors in deciding where the ‘public interest’ lies.

The lack of guidance on interpretation of the criteria may mean that certain matters are overlooked or that benefits or costs are over or understated. It also can create uncertainty because the test can be interpreted differently:

- over time — the relative importance of ‘public interest’ criteria may change;
- across reviews — the same criteria may be assigned different relative importance across different reviews; and
- between jurisdictions — different governments may place different emphasis on ‘public interest’ factors leading to varying outcomes for reviews of similar activities.

The NCC’s guiding principles on the ‘public interest’ test

Recognising the difficulties faced by many charged with conducting NCP reviews and implementing reforms, the NCC has recently sought to provide some guidance on how to use the ‘public interest’ provisions to weigh up the benefits and costs of particular reform initiatives (see box 11.3). The NCC’s view that ‘all public interest considerations intrinsically carry equal weight’ could be misconstrued to convey an impression that, in terms of the matters listed in clause 1(3), a relatively minor negative impact under one criterion could be given equal weighting against a major positive impact under another.

Box 11.3 Weighing up costs and benefits and the ‘public interest’

The NCC has released a discussion paper which, among other matters, indicates its views on the ‘public interest’ test:

Weighing benefits and costs involves difficult judgements which can only be assessed on a case-by-case basis. This is because a broad range of considerations will apply, and not all will be relevant in every circumstance.

The Council’s approach ... is that the NCP agreements give social and environmental values no more or less weight than financial considerations in determining where the public interest lies. In other words, the presumption is *that all public interest considerations intrinsically carry equal weight* (emphasis added).

For example, a review into the merits of a statutory marketing arrangements should consider such matters as the impacts of barriers to competition on the level and stability of farmers’ incomes, the welfare of Australian consumers, implications for the value of Australian exports, environmental impacts, administrative and regulatory costs, effects on regional development and employment, economies of scale in transport and marketing, agricultural productivity and implications for value-adding industries.

A challenge for review bodies and for governments is to focus on outcomes that benefit the *community as a whole* ...

Source: NCC (1999a, pp. 97–8).

The Commission considers that, as a starting point, all of the criteria have equal *status*. In practical terms, however, they will have differing *relevance* in each particular case. The relevance of each ‘public interest’ criterion will need to be established, in terms of its contribution to the overall costs and benefits of proceeding, or not proceeding, with the particular reform. That is, once an evaluation is under way, the elements of the public interest criteria should *not necessarily* be afforded equal weight. And, where it is considered that a benefit related to a particular public interest criterion is relevant, it is important to assess whether the objective could be achieved in some other way.

It is incumbent on jurisdictions to provide more guidance on the application of the ‘public interest’ test. Indeed, the Hawker Committee recommended that the parties to the NCP should coordinate their efforts to achieve a common set of principles to apply the ‘public interest’ test (Hawker 1997a). In its response, the Commonwealth Government said that:

Under NCP all jurisdictions retain sovereignty over how to apply competition policy. This discretion is central to implementing competition policy. ... Nonetheless, the discretion that all jurisdictions retain has resulted in some inconsistencies between jurisdictions. ... the Commonwealth will work with the States and Territories towards the development of a common set of basic principles to apply the public interest test. (HRSCFIPA 1998)

The New South Wales Government (sub. D283) supported the development of national rather than State-based principles as more conducive to consistent application of the ‘public interest’ test. Until this cooperative venture to develop a common set of principles has come to fruition, all jurisdictions should ensure they make available (interim) guidance on the content and application of the ‘public interest’ test. While most jurisdictions have published such material, the level of detail varies and the evidence to date indicates clearly that the dissemination of such information often appears to be wanting.

RECOMMENDATION 11.3

All governments should publish and publicise guidelines which:

- ***outline the purpose and scope of the ‘public interest’ provisions of the Competition Principles Agreement; and***
- ***provide guidance on how the provisions should be interpreted and applied.***

The common set of basic principles for application of the ‘public interest’ test which is intended to be developed jointly by governments also should be published and disseminated widely.

The Commission considers that a range of ‘scenario’ examples, or case studies, may be instructive in demonstrating the operation of the ‘public interest’ test. For example, the South Australian Government, in conjunction with the Local Government Association of South Australia, has issued guidelines on the application of NCP to local governments (sub. D224). This document provides an ‘operational’ example of how the ‘public interest’ test could be applied with respect to a council-run meals-on-wheels activity that could be said to be in competition with a home-delivered fast food operation. It notes that the ‘public interest’ test would allow non-economic factors (eg food preferences and nutritional needs of consumers and the social benefit from interaction with volunteers) to be factored into the cost-benefit analysis.

The boundaries of the ‘public interest’ test

Another issue which requires clarification relates to the ‘boundary’ of the ‘public interest’ test. Should it be applied at the level of a local community, a State or Territory, or the nation? In some cases, the answer is self-evident — for example, national legislation reviews (eg newsagents) versus local government reviews (eg restrictions on hawkers, or a decision not to contract out a local council’s service).

In the latter case, for example, a local community may be prepared to pay higher rates or forgo some other service (or accept a lower standard) in order to maintain local employment. The costs and benefits of the decision will be borne by the local community concerned. This is in contrast to national reviews, where the ‘public interest’ test is based on a national economy-wide assessment of costs and benefits. A ‘grey’ area, requiring judgements to be made, lies between these two cases.

It is not clear whether an economy-wide perspective is adopted by all States and Territories for legislation reviews within their jurisdictions which have implications for people outside of their boundaries. Failure to consider broader benefits and costs could mean that a State based review might arrive at a different ‘answer’ to a review that took a national economy-wide view. It could also set in train some perverse incentives with implications for regional adjustment by allowing anti-competitive restrictions to remain in place, even where the costs clearly outweigh the benefits. For instance, in the case of dairy industry deregulation, the ability of several States to maintain effective farm gate controls on milk depended on the outcome of the Victorian dairy legislation review. This could have provided an incentive for them to maintain the *status quo* for their dairy industries and allow Victorian deregulation to render their farm gate controls relatively ineffective. For States other than Victoria, this:

- avoids the political difficulties associated with ‘actively’ removing assistance to their dairy farmers; and
- makes it easier for them to avoid considering adjustment measures or compensation — in the event of a Victorian deregulation of farm gate controls, the adverse consequences for other jurisdictions would derive not from their own removal of restrictions, but from ‘external’ pressures.

The possibility of ‘strategic behaviour’ by jurisdictions in such situations could be reduced by cooperative reviews, as occurred with the review of barley marketing legislation in Victoria and South Australia, or by independent national reviews. Of course, a genuine economy-wide review, in pursuit of net national gains, would need to ensure that negative impacts upon particular communities were assessed as thoroughly as in a review carried out by an individual State.

The Commission considers that, for important legislation reviews where the impacts of reform are likely to extend beyond the jurisdiction conducting the review, the costs and benefits should be weighed in terms of the national interest — even to the extent that reforms may lead to adjustment costs in the ‘home’ State, but greater overall benefits in other States (implying an overall national benefit).

The Commission recognises that State sovereignty is a fundamental component of the NCP package. Nonetheless, it is desirable that the national interest should be considered when State and Territories are considering the form of legislation reviews (for example, joint-State reviews).

RECOMMENDATION 11.4

In the case of reviews of anti-competitive legislation which may have significant impacts extending across jurisdictions, the benefits and costs should be weighed in terms of the interests of Australians as a whole.

Taking account of adjustment costs in the ‘public interest’ test

The Centre for International Economics (CIE), has proposed that, in making recommendations and writing up review reports:

It may be necessary to identify timing considerations in making recommendations and to identify groups likely to gain or lose from the changes proposed. Issues of compensation may need to be dealt with. (CIE 1999, p. 50)

The CIE view carries with it the implication that adjustment issues (whether by way of compensation or other forms of assistance) may need to be ‘integrated’ into review processes. Indeed, Agriculture, Fisheries and Forestry – Australia (AFFA)

considered that insufficient regard has been paid to adjustment costs in the application of the ‘public interest’ test:

... the way in which the test has been applied may not always give sufficient cognisance to adjustment costs and the flow-on impacts of the consequent reforms to other regions and industries.

The public benefit test should explicitly include an assessment of the temporal, spatial and cumulative effects of the reforms. In particular, the adjustment costs and the flow-on impacts of reform in other industries and regions should be clearly highlighted in the public benefit test.

Consultation with rural communities that are likely to be directly affected by particular reforms should be a requirement of the public interest test. (sub. 200, p. 29)

Identifying ‘adjustment’ costs in the decision-making process is critical if a review is conducted appropriately. However, using the ‘public interest’ test to *address*, in advance, these costs is another matter. For example, it was noted in chapter 10, that there have been very large job losses in publicly-owned utilities since the mid-1980s. Yet, the growth in private sector employment in those activities has led to a net increase in jobs in these same industries. This would not have been anticipated with any certainty at the time the reform process commenced. In effect, had these reforms been initiated *after* the commencement of NCP, a decision not to proceed with reform may have been made on the basis of unduly large adjustment costs factored into the ‘public interest’ test. This example highlights the complexities associated with attempting to identify all of the (longer term) winners and losers of reform before the event.

In addition, and taking a pragmatic view, AFFA noted that:

... it would be inappropriate for review panels to pre-empt government decisions on whether, and what type of, assistance should be provided to regions or sectors significantly disadvantaged by reforms. However, at a minimum the public interest test could inform decision makers on areas potentially facing high costs from reforms. (sub. D301, p. 2)

The issues of reform and adjustment are explored in more detail in chapter 13.

That said, in this report, the Commission has made recommendations which aim to:

- ensure that appropriate mechanisms are in place so that all affected parties — including country communities — are informed about NCP processes; and
- increase the understanding of the application of the ‘public interest’ test and provide some guidance on its interpretation.

These changes, if implemented, may go some way to obviating the need for adjustment assistance by ensuring that proposals for reform give due regard to, and

proceed in a manner which, takes into account all of the economic and non-economic benefits and costs.

11.7 Modifying NCP

Part A of this report documented concerns about the economic and social circumstances of communities in country Australia — circumstances which many participants attribute to NCP. However, some of the staunchest critics of NCP have acknowledged to this inquiry that it simply is not possible for NCP to have created the ‘havoc’ attributed to it.

For instance, the Queensland Government said that:

NCP is one of a number of influences currently impacting upon rural communities and it is too early in the implementation phase to make any definitive assessment of the impacts of NCP reforms to date. (sub. 202, p. 12)

Similarly, the Tasmanian Government contended that:

... it is considered somewhat premature, at this stage, to attempt to provide any comment in relation to the impacts of NCP on rural and regional Australia as they might apply to Tasmania. (sub. 198, p. 5)

And, the ACT Regional Leaders’ Forum (in conjunction with the ACT Government) said that:

Compared to the effect of structural changes to the economy, there appears to be only minor impacts on the region due to competition policy. In addition, competition policy reforms are relatively recent and it is too early to confidently determine its impact. (sub. 192, p. 8)

These views are indicative of those expressed at the Commission’s meetings throughout country Australia. Once the elements of NCP had been clarified — which was often significantly different from people’s initial perceptions — many felt that it was too early in the implementation phase of NCP to pass judgment on its effects.

As noted in chapter 10, many of the costs associated with implementing NCP are likely to be of limited duration. In contrast, many of the benefits are likely to be ongoing. Based on the evidence provided in part A of this report, the analysis of the long-term sources of change and the limited information available to date about the effects of NCP, the Commission considers that there is no case for calling an across-the-board halt to the NCP program.

Reviewing NCP

Although a halt to NCP is not warranted, the Commission recognises that NCP is to be reviewed by the relevant parties — the Council of Australia Governments (CoAG) — as early as next year.

As noted in chapter 4, the terms and conditions of the Competition Principles Agreement (signed in April 1995), the Conduct Code Agreement (signed in April 1995) and the operation of the NCC (established in November 1995) will be reviewed after five years.

The Hon. Rob Borbidge, MLA, called for reviews to be brought forward:

An *immediate* review by the parties on the operation and the terms of NCP would therefore be only slightly ahead of the timetable originally set by the Council of Australian Governments, and holding a review of the role of the NCC would be somewhat earlier than was originally intended, I think it would be commonsensical to deal with that issue simultaneously. (sub. D 279, p. 2)

As noted above, State and Territory governments generally considered this inquiry to be somewhat premature given the difficulties they have encountered in determining the impact of NCP so early in its implementation. Taken with the fact that this report is being forwarded to the Commonwealth Government in late 1999, the Commission considers that bringing forward the CoAG reviews would not be advantageous.

The forthcoming reviews will, however, provide a direct opportunity for the States and Territories to air their concerns about NCP processes, competition payments, definitional and scope issues associated with the intergovernmental agreements and the role of the NCC. The substance of these concerns can be tested in the reviews.

Extending NCP timeframes

Some State governments contended that the time required to implement NCP reforms has been underestimated. For instance, the South Australian Government reaffirmed its support for NCP, but regarded the timelines set for implementing the package as too ambitious and in need of review. It considered that full implementation of all legislation reviews would be problematic given the need, in some cases, to adopt phasing arrangements.

Similarly, the Queensland Government said that:

... the timelines for the conduct and implementation of the reforms emanating from the legislation review timetable needs to be reconsidered. Whilst the reviews may be completed by the year 2000, it may not be practical or possible in some instances to

implement the reforms by that date ... many of the reforms require lead-in or transitional periods to assure that adverse impacts are minimised. (sub. 202, p. 3)

In assessing the merits of such claims, the Commission sought a response from the NCC. The Council forwarded a copy of correspondence sent to jurisdictions which outlines its approach for its 1999 assessment procedures. The Council stated that:

Where governments consider that phasing of reform is necessary, the Council expects governments to provide a public benefit case where restrictions are retained beyond the CPA target date of the year 2000. (Correspondence supplied to the Commission)

This implies that arrangements extending beyond 2000 can be accommodated within the agreed framework, provided that they can be shown to be in the 'public interest'.

The need for extensive consultation(s) is also seen as necessitating an extension of time. The South Australian Government commented that:

... there has been significant delay arising from the extensive consultative processes required to finalise specific targets and to develop appropriate policy positions and transition strategies, many of which are still not adequately resolved. For example, the start of the national electricity market has been delayed three times in the last twelve months. (sub. 156, p. 9)

The Queensland Farmers' Federation also sought an extension of NCP implementation timeframes where reforms are regionally concentrated and impact adversely on rural communities (sub. D258). This is discussed in chapter 13 which deals with reform implementation and adjustment issues.

The intergovernmental agreements on electricity, gas, water and road transport incorporated in NCP contain sets of principles rather than immutable action plans tied to rigid implementation schedules. Full implementation of these agreements has required, and will continue to require, public consultation and discussion in many forums (eg CoAG, Ministerial Councils and meetings between State officials) to finalise the practicalities of converting general principles into action plans. For example, the implementation of water reforms has involved significant consultation among the States and Territories to clarify objectives, processes and timelines.

Thus, where the achievement of original timeframes has proved to be infeasible, CoAG has agreed to new timelines — for example, to provide for full implementation of the national electricity market, and for water, gas and road transport reforms. Also, the NCC has acknowledged that some reviews will not be completed according to legislation review schedules. In addition, the Council has recognised that reform outcomes may need to be phased in beyond 2000. This is consistent with the Commission's assessment in its report on *Regulation and its Review 1997-98* (PC 1999f), that the far-reaching consequences of some legislation

subject to review mean that the quality of review and reform efforts should take precedence over timelines.

FINDING 11.4

Control of NCP rests with governments which have used forums and processes to consider and, where necessary, modify NCP implementation schedules. The evidence suggests that these processes are working.

RECOMMENDATION 11.5

At this juncture, there should be no across-the-board extension of the National Competition Policy target dates.

The South Australian Government (sub. D298, p. 9) disagreed with this recommendation and sought a formal extension of NCP implementation schedules because it considered that it is difficult to modify NCP timetables. It raised particular problems in relation to the water agreement. Yet, the South Australian Government indicated that, although no formal announcement has been made, a ‘tripartite’ agreement had been struck in February 1999 to extend the timeframe for substantial completion of the water allocation and trading reforms (see chapter 5).

On this issue, the Association of Rural Water Authorities in Victoria considered that any extension to the reform timetable should not disadvantage those jurisdictions which had met their reform commitments:

... if the extension recommendation is accepted, it is considered that the jurisdictions which have implemented these fundamental reforms within the current timeframes should receive any tranche payment benefits in line with the initial proposals. However, the rewards for other areas where delay has occurred should be deferred until the required reforms are ultimately implemented. (sub. D296, p. 2)

The South Australian Government’s rejection of the Commission’s recommendation (recommendation 11.5 above) was not supported by other jurisdictions. Moreover, the Commission re-iterates that this recommendation relates to an ‘across-the-board’ extension of NCP, rather than possible timetable changes for components of a particular inter-governmental agreement.

Regulatory frameworks

NCP was implemented for many reasons. One was a presumption that regulation and other barriers which impede competition, while advantaging some groups in the community, may be contrary to the interests of Australians as a whole. The move to greater competition in the markets for some infrastructure services has been

accompanied by the creation of new (mainly State-based), and a widening role for existing (eg the ACCC), regulatory and prices oversight agencies. This has occurred in areas where market power is an issue (eg where public monopolies have undergone structural reforms).

The Commission supports a role for ‘competition watchdogs’ to regulate conduct so as to avoid abuses of market power. Regulatory oversight can help to ensure that the benefits of reform are not captured only by sectional interests. However, it is important that these agencies function efficiently because regulation of the post-reform environment is as important as the process of undertaking those reforms.

The increasing tendency towards managing competitive outcomes was an issue for some inquiry participants. The Public Interest Advocacy Centre made a general point that, from the perspective of consumers:

Structural changes occurring in the electricity industry are happening against a backdrop of jurisdictional regulatory differences and territoriality which provides no long-term basis for consumers to believe that their interests will be protected. (sub. 127, pp. 8–9)

The National Farmers’ Federation submitted that:

... we do have industry-specific codes with significant variations within a national framework of the National Competition Policy Reform Act. We also have State-based regulation. We have the ACCC involved and, within the electricity reform sector, we also have a number of institutions called the National Electricity Court Administrator which is a quasi-regulator and something called a National Electricity Marketing Company which operates the pool system. So we do have a range or, what one would call, several layers, if you like, of regulation and institutions operating, say, in the energy sector. (trans., p. 845)

... part of the regulatory process has become quite complex — complex in terms of government interference and complex in terms of regulators applying very complex methods of arriving at rates of return. (trans., p. 846)

United Energy cited many instances of what it considered to be inefficient regulatory practices adopted in some jurisdictions. It considered that:

Where regulation is required, it is intended to stimulate competitive market processes and to be light handed, incentive driven and non-intrusive.

... [current] frameworks are inadequate to the task, allowing regulators to implement regimes which are frustrating rather than fostering the principles and objectives of policy and which are against the long term interests of consumers ... (sub. D217, p. 3)

In the gas industry, AGA raised concerns that the regulated rate of return for Victorian gas distributors may adversely affect the industry’s incentive to invest and improve service quality (chapter 5).

The most appropriate form of regulation for particular market circumstances is an issue for regulatory agencies around the world. Approaches other than rate of return and price-caps (for example, CPI-X) include price freezes, revenue caps, earnings sharing (where earnings over pre-set levels are shared by the regulated firm and its customers) and hybrid schemes such as price caps coupled with earnings sharing (Sappington & Weisman 1996). United Energy called for a review of current frameworks to test outcomes against policy objectives because it considered that:

Some regulators have failed to inform themselves of best practice incentive regulation, opting for the illusory comfort of traditional heavy handed cost of service/rate of return regulation which has had such a dismal record in the UK and the US and is now widely derided. (sub. D217, p. 4)

The need for efficient and effective regulatory design is also relevant to access regimes. Apart from the national access regime in Part IIIA of the Trade Practices Act, there are special regimes for telecommunications (Part XIB and C of the Trade Practices Act) and for airports (under a Commonwealth Airports Act). Special rules also apply for gas. As noted earlier, there are separate State-based access regimes (eg rail) as well.

An access regime can, by facilitating competitive market outcomes, provide a significant community benefit in a manner which protects the interests of potential new entrants whilst ensuring also that owners of 'essential facilities' are not disadvantaged (see chapter 4). However, a poorly designed or implemented access regime could result in regulation shifting from a mechanism to improve efficiency to an infringement of property rights, with implications for investment in infrastructure — as alluded to by the South Australian and Northern Territory Governments with respect to the proposed Alice Springs to Darwin rail link (chapter 9). Similar issues emerge with a recent access claim to private mining-related infrastructure in the Pilbara. As at August 1999, that case is before the courts.

The national access regime appears to provide access more readily than the model envisaged in the Hilmer report. Similar concerns have been aired by the Industry Commission (IC 1995b, 1997b, 1997c) and others, including the House of Representatives Standing Committee on Communications, Transport and Micro-Economic Reform which reported that:

... the main problems of third party access to private infrastructure is one of accommodating the commercial interests and rights of the infrastructure facility owner. In almost all cases, the owner of infrastructure is likely to have made substantial investment, and through that assumed most of the financial risk associated with the facility. Where third party access is deemed appropriate, infrastructure owners would have legitimate grounds to set prices, terms and conditions that cover that risk, plus compensation for revenue loss by competition from new operators (where applicable).

An imposed access arrangement ... that did not take into account these factors might infringe on the ability of facility owners to exercise basic property rights. (HRSCTCMR 1998, sec. 4.46–7)

Other areas of competition regulation also came under fire from participants. For example, the Southern Riverina Irrigation Districts Council (part of Watering Australia Foundation submission) said that:

We realise it can take — and nobody will dispute it in the DLWC [New South Wales Department of Land and Water Conservation] — up to seven weeks to transfer water from Murrumbidgee to Murray.

... a lot of things can happen in seven weeks ... the price of water can drop from \$70 a megalitre to, say, \$20 in the space of seven weeks. ... it's just not satisfactory whatsoever. We're being required to proceed and it's not proceeding at an institutional level. (trans., pp. 226–7)

The efficiency of regulatory oversight mechanisms across jurisdictions and industry sectors is too broad an issue for this inquiry, but their performance can affect significantly the flow of benefits from NCP and other reforms. In some cases, concerns about various features of regulatory regimes may:

- reflect teething problems as new rules are ‘bedded down’;
- dissipate as court rulings and ‘precedent’ help to dispel uncertainty; and
- require governments to consider more closely the aims, objectives and operations of regulatory authorities.

While most jurisdictions systematically review their regulations, the same cannot be said about reviews of the performance of regulatory authorities. For instance, most jurisdictions have regulation review functions within their bureaucracies (eg the Commonwealth Office of Regulation Review) and the legislation review process of NCP also provides a mechanism to assess the efficacy of regulation. In contrast, mechanisms to assess the performance of regulatory agencies — some of which were created relatively recently — are not evident.

The Commission considers that there is a need for governments to ensure that their regulatory agencies are subject to periodic independent scrutiny and review — say, every five years. Such reviews should examine the approach to economic regulation adopted by such agencies with a view to ensuring that they and keep abreast of developments in competition regulation. This could, for example, involve benchmarking their regulatory regimes against best practice.

All jurisdictions should ensure that their regulatory agencies responsible for the oversight of National Competition Policy-related reforms are subject to periodic independent review to ensure that they are performing appropriately.

11.8 The role of the National Competition Council

Many participants were unaware that the NCC is an *advisory* body. Rather, it was commonly perceived to be undermining the sovereign rights of individual jurisdictions, holding the ‘purse strings’ and deducting payments from State governments based on its own ideological predilections.

Some State governments raised particular concerns about the NCC:

- the Queensland Government sought a diminution of the NCC’s role because it considered that the NCC does not pay sufficient regard to the adverse impacts of reform (sub. 202);
- the Tasmanian Government said that the NCC ‘tends to bring its own ideological position to the consideration of policy outcomes and dictate those outcomes to governments, outside the [CoAG] agreements’ (sub. 198); and
- the South Australian Government said that ‘the NCC brings its own ideological position to consideration of policy outcomes and should not seek to dictate those outcomes to Governments, particularly in legislation review where the final decisions on reform outcomes must rest with elected Governments’ (sub. 156).

The South Australian Government (sub. D298, p. 7) claimed that the NCC has attempted to push the boundaries of reform by bringing matters outside the NCP intergovernmental agreements into the competition payment assessment process. It claimed that the NCC has exceeded its brief in areas such as water reforms (by requiring that CSOs be ‘well targeted and justifiable’) and road transport reforms (by including in tranche assessments timetables that do not give rise to NCP obligations). Some of these claims are based on correspondence between the NCC and State and Territory governments which is not available to the Commission. Others reflect differences in interpretation — for example, the NCC has stated that the changes relating to road transport reforms were endorsed by CoAG as part of the framework for the second tranche assessment (see chapter 5).

The Queensland Government raised similar concerns. For example, it stated that:

... there is a concern regarding the NCC’s role in resolution of disputes about interpretation of the NCP agreements ...

The NCP reform process needs to be refocussed on pragmatic outcomes based on thorough public interest analysis. This will not be achieved while the NCC is in a position to place unilateral interpretations on the meaning of NCP agreements. (sub. D302, p. 2)

The Queensland Government proposed that the NCC no longer be the adviser on NCP but that this role be transferred to a secretariat of the Commonwealth Department of Prime Minister and Cabinet reporting directly to CoAG.

The available evidence, particularly with respect to legislation reviews, however, does not support the contention that the NCC dictates outcomes, but rather that it seeks to be satisfied about the integrity of NCP processes. To date, the NCC has recommended only twice that jurisdictions (New South Wales and Queensland) receive a deduction in competition payments. The New South Wales situation has been resolved with that State now agreeing to implement the recommendations of its independent rice review (see chapter 4). Queensland has until December 1999 to provide an explanation for its failure to comply with reform commitments on water infrastructure (see chapters 4 and 5).

On the other hand, the fact that several State governments raised similar concerns suggests that there may be a problem with the way the NCC and the States work together and/or communicate. The Commission considers that these issues should be raised in the forthcoming review of the role of the NCC.

The South Australian Government also stated that conflicts are inherent in the roles played by the NCC.

The NCC has several roles conferred on it by the agreements and related legislation. Most emphasis to date has been placed on the assessment role, and in discharging that function the NCC has also sought to provide advice to jurisdictions on NCP issues, and increasingly to become an active participant in the policy development process.

The Government believes that there has been a conflict between the NCC's roles in assessing jurisdictions' implementation of NCP and the NCC's desire to influence jurisdictions' policy decisions. (sub. 156, p. 14)

It would seem appropriate for the NCC to advise jurisdictions on NCP issues, particularly given its 'no surprises' policy — that is, to provide early advice where there may be problems which could affect assessments (and advice on payments). As the 'adviser', it seems sensible for the NCC to offer its interpretation of the 'rules'. Admittedly, this could be perceived as an attempt to influence outcomes.

There also could be some justification for concerns about a conflict between the NCC's role as 'adviser' and its role as a participant in policy development arising from its conduct of Commonwealth legislation reviews (eg its recent report on

Australia Post). This is not to question the competence of the NCC in performing this task, but it does leave it open to criticism that it is both interpreting and making the rules.

Given the importance of the NCC's role in monitoring each jurisdiction's compliance with their NCP commitments and in making recommendations to the Commonwealth Treasurer on competition payments, it may be more appropriate for reviews of Commonwealth legislation (and national legislation reviews) to be conducted by bodies that are seen to be more at 'arms-length' from the NCP assessment processes. Such a change is likely to enhance confidence in the role of the NCC and in the integrity of NCP processes.

RECOMMENDATION 11.7

The National Competition Council should no longer be asked to conduct legislation reviews.

12 Achieving better outcomes for country Australia

The smaller size of markets in country Australia limits the number of competitors, but does not necessarily mean that small communities will receive no benefit from competition reforms. There are also regulatory arrangements in place to limit abuses of market power.

Governments have long used measures such as fiscal equalisation and community service obligations to reduce the cost of living and of doing business in country areas.

New measures designed to provide country people with reasonable access to services which have developed as a result of stronger competition in metropolitan markets are being put in place. Regional telecommunications infrastructure and rural transaction centres are examples. More could be done to enhance regional economic activity, especially by removing impediments to development.

12.1 Introduction

The terms of reference ask, that in looking at the impact of competition policy reforms on rural and regional Australia, the Commission give consideration to ways in which the benefits of NCP to country Australia may be facilitated and any adverse effects mitigated. That task forms the focus of this chapter.

This report has found that, on the balance of the available evidence, there are demonstrable net benefits for Australia from pursuing NCP reforms. The additional output and income generated by NCP reforms will be available to improve the economic and social circumstances of people in country and metropolitan areas. Country Australia as a whole is likely to benefit from NCP, although there is more variation in the incidence of benefits and costs among particular regions. Many parts of country Australia are already benefiting from a range of NCP reforms through reduced costs and prices for goods and services — particularly government provided infrastructure. Nonetheless, as noted in part B, some communities have been adversely affected by some NCP reforms. There is also a prevalent view that

country Australia cannot capture the benefits of NCP reforms to the extent enjoyed by its metropolitan counterparts because competition is less intense in country markets. More specifically, there are concerns that the removal of anti-competitive measures which ‘reserve’ the market to certain local agents will encourage the formation of regional monopolies in the ‘thinner’ country markets.

This chapter discusses three groups of measures which have a bearing on outcomes for country Australia: those which have been in place for sometime; those which have been adopted more recently; and regional development policies. The first group includes:

- the role of the Australian Consumer and Competition Commission (ACCC) and the measures used to limit anti-competitive behaviour;
- intergovernmental transfers (horizontal fiscal equalisation) to help regions offset inherent locational disadvantages by providing each State and Territory with the financial capacity to provide ‘average’ standard services to its citizens; and
- approaches to ensure that governments do not use NCP as an excuse to abrogate their responsibilities to provide an adequate level of services to people in country Australia through widely agreed community service obligations (CSOs).

The second group includes measures such as:

- policies designed to provide country Australia with reasonable access to services and to reduce disparities in access to important services (eg Regional Telecommunications Infrastructure Fund and rural transaction centres).

The third group includes:

- regional development policies to maintain or increase the level of activity in particular communities, including the removal of impediments to development.

The nature of markets in country Australia and the mechanisms that are in place to limit anti-competitive behaviour which could unduly deny country communities the benefits of competition are a useful starting point in the consideration of these matters.

12.2 The nature of markets in country Australia

During the course of the inquiry, the nature of markets in country Australia was raised as an issue by participants. This is essentially about the ‘thinness’ of markets in many rural and regional areas which may constrain the abilities of individuals and businesses in country Australia to obtain in a direct way the benefits of competition.

Many participants pointed to a lack of competition in a range of markets in country Australia. For example:

There is a lack of competition in remote markets, which is a function of their small size and their remoteness; ... A particular concern in Yalgoo is the lack of competition in freight transport ... there is no competition whatsoever for daily freight. ... It is probably fair to say that there is considerable dissatisfaction throughout the community with the current freight services. Freight services have an impact throughout the local economy, and improvement through competition of the freight services to Yalgoo would enhance the competitiveness of every local industry. (Shire of Yalgoo, sub. 98, pp. 3–4)

With a lack of competition obvious in the Australian marketplace as a whole, it is no surprise that in the smaller internal markets there is less and less competition. Certainly, in small rural markets, competition is minimal or non-existent. (Cootamundra Shire Council, sub. 6, p. 1)

Typically, the lack of competition in country markets is a result of distance and low population density – a point recognised by many participants. For example:

It is axiomatic that distance confers monopoly on or, at the very least, reduces competition between producers and suppliers of goods and services ...

Generally speaking, the sparser the population, the more entrenched the local monopoly because the population has to incur the expense of travelling further to reach competitive alternatives. In contrast, we may regard the capital cities as a single highly competitive labour and retail market and a competitive infrastructure market. This is despite the fact that our cities have distinct regions with different socioeconomic conditions. High mobility enables residents, wherever they live, to access the opportunities provided by the whole city. (Sorensen, sub. 58, p. 6)

The level of competition available generally decreases as a function of remoteness and lower population. (Mount Isa City Council, sub. 54, p. 1)

Given the low population density of many rural and especially remote areas, demand for goods and services in those markets is intrinsically lower than in metropolitan markets. As a result, the number of suppliers also tends to be small.

In deregulated country markets, the limited number of suppliers can bring about a geographic (or ‘spatial’) oligopoly or monopoly. In this situation, local suppliers may have a degree of market power, which they may use to extract higher than normal profits. If supply of the good or service from more distant locations is feasible, this will usually provide a higher level of competition to the market. However, if supply from more distant locations or other means of supply (eg mail order) is difficult, local suppliers may have a high level of market power.

In principle, the level of competition for a particular good (or service) in a town will depend on the following characteristics:

- the ‘portability’ of the good or service;

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- the elasticity of demand for (that is, the degree of necessity of) the good(s) and service(s) in question, their substitutes and complements;
 - the existence of barriers to entry to, or exit from, the market;
 - the population of the town and its ‘catchment area’; and
 - the distance from surrounding towns and cities, their size and the range of goods and services available there.

All of these factors will influence the number of competitors in a particular market and the degree of ‘contestability’ of that market for entry by outsiders. Changes in technology, consumer preferences or the regulatory framework may also influence the number of competitors within the marketplace. For example, improvements in transport technology have enabled people to travel further to gain access to goods and services. This, in effect, has enlarged the catchment area of more distant towns and cities, thus reducing the range of suppliers of goods and services required to be located in small towns (see also chapter 2).

An important point to note is that a small number of suppliers is not necessarily indicative of excessive market power being wielded by those suppliers. There are many examples of a market being supplied efficiently by competition between a small number of producers, processors or retailers. Moreover, while there may be only one or two major suppliers to a market, the market may still be ‘contestable’, in that barriers to entry may be sufficiently low that the threat of new entrants forces the incumbents to maintain prices and service at competitive levels. For example, the ability of a single supplier in a country town to raise prices is limited where an alternative supplier can easily establish within that town. This requires that there are no planning or regulatory restrictions which would act as a ‘barrier’ to an alternative supplier establishing in the town.

As soon as what Woolworths termed the ‘offer’ (including such things as price, service, quality, range and convenience) deteriorates below a certain level, it becomes profitable for outsiders to enter the market and establish themselves (for example, for more distant suppliers to supply into the local market). This, of course, assumes that the incumbent producer or supplier is not so dominant that it can engage in predatory behaviour — that is drive out and deter competitors to extract ‘monopoly rents’.

If competition (or ‘contestability’) is low, incumbent suppliers may extract larger than normal profits — for example, by raising prices. In effect, they are using the market power bestowed on them by a lack of competition to extract ‘monopoly rents’ from consumers. Alternatively, the lack of competition may be reflected in lower levels of service and/or reduced quality.

So it is the degree of competition (actual and potential) rather than the level of market concentration which should be regarded as the key issue. The misuse of market power results in the benefits from trade flowing mainly to the producers, processors or retailers rather than consumers and, as such, is commonly regarded as both inefficient and inequitable.

Because of the detrimental effects arising from the misuse of market power, the Commonwealth established an independent statutory authority, the Australian Consumer and Competition Commission (ACCC) to promote competition and ‘police’ misuses of market power. The ACCC (which replaced the Trade Practices Commission) deals with all competition matters including mergers, unfair market practices and anti-competitive conduct through its administration and enforcement of the *Trade Practices Act 1974* and the *Prices Surveillance Act 1983*. Policy options available to the ACCC to rectify such situations are discussed below.

The role of the ACCC

In cases where competition in markets is waning, leading to market power being concentrated into the hands of a small number of suppliers, the relevant authorities will often intervene to achieve more equitable and efficient outcomes.

The major measures used by the ACC to limit monopolistic outcomes are:

- preventing acquisitions which may bring about a *substantial lessening of competition* — Section 50 of the Trade Practices Act (TPA) regulates market structure to prevent increases in market power; and
- prohibiting the *misuse of market power* — Section 46 of the TPA prohibits a firm with substantial market power from using that power to eliminate or damage a competitor, prevent entry of a competitor into a market and/or deter or prevent competitive conduct.

In addition, the TPA prohibits other anti-competitive behaviour such as anti-competitive agreements (eg agreements which fix prices or involve collusion to share markets), exclusive dealing arrangements and resale price maintenance.

The measures available to the ACCC under the TPA are often used to deal with concerns relating to collusion and predatory pricing, such as those expressed on behalf of suppliers to major supermarkets:

... the increasing use of their economic muscle by the supermarket duopoly, in what would seem to be clear breaches of S. 46 of the Trade Practices Act. This has been especially evident for rural producers who have almost inevitably been price takers for a number of years. (Devonport City Council, sub. 44, p. 12)

Major retailers ... with predatory pricing, force small business out and at the same time down size employment. (Chinchilla Chamber of Commerce, sub. 27, p. 1)

If these claims can be substantiated, they can be dealt with by the ACCC under the existing regulatory regime. However, some participants pointed out that it is difficult and costly to collate the evidence necessary to bring about a successful action. Furthermore, some pointed to the possible adverse consequences of taking action against important customers. The ACCC (1999b) recognised that there are often difficulties in collecting evidence. In the case of ‘cheque book’ competition, whereby larger retail chains have been accused of predatory acquisitions of independent retailers, it said:

... establishing anti-competitive purpose has proved to be very difficult in practice. For instance, to prove that the predatory nature of acquisitions breaches section 46, it would need to be demonstrated that prices paid in acquiring the independents were only rational in light of some longer term strategy to capture market share and harm competitors by reducing competition in the expectation of future profits in excess of current opportunity costs/losses. (ACCC 1999b, p. 35)

In the case of regional oligopolies or monopolies, however, the situation is more complicated. Many participants have argued that various factors have pushed markets closer towards a monopoly. NARGA (sub. 8 and sub. 139) said that ‘more rigorous enforcement’ of the TPA and ‘if necessary forced divestiture by legislative means (as done in the USA)’ is essential to reduce the market power of national retail chains. It further argued that:

The inertia obstacle of being forced in most instances to ‘prove’ at great expense a breach and also to the detriment of our purposes, the watering down of Section 50 some five years ago, with the doing away of the *dominance* test (under which a test case could have been mounted as to ‘cheque book acquisitions’ being in fact part of an overt scheme to inhibit, damage, misuse etc) and replacing it with a more ambiguous — in our view — *substantial lessening of competition* test, under which ‘creeping acquisitions’ as a concept of concern, really does not get a look in. The focus is on the anti-competitive activity, not the anti-competitive outcome. (sub. 139, p. 39)

However, the dominance test prohibited only the acquisition or enhancement of unilateral market power by a firm which would be in a position to dominate a market. The dominance test, unlike the substantial lessening of competition test, did not prohibit mergers which were likely to facilitate the use of coordinated market power through explicit or tacit collusion.

There will be cases where all the signs point to monopolistic power being exercised in a particular market in a particular area. The National Farmers’ Federation argued that a broader approach should be taken to competition policy to include such cases:

Developing more competitive markets requires careful design of regulatory systems that acknowledge the nature of the products, the participants and the markets in question, so as to produce outcomes that are efficient and maximise economic benefits. (sub. 144, pp. 2–3)

However, the demarcation of a regional market is sufficiently complex that it may not be possible to formulate a general policy on regional oligopolies. For example, in considering the geographical dimension of a market in respect of the likely effect of a retail chain acquiring an independent supermarket in a country town, a wide geographical definition of a market (eg at the regional or State level) would lead to the conclusion that there was no substantial lessening of competition. Alternatively, using a narrow geographical definition of a market (eg at the town level), it could be argued that the market is not sufficiently ‘substantial’ under the TPA (ACCC 1999b).

In practice, the ACCC has to take a commercially realistic view of what constitutes the market:

In geographic terms, the view has been (as the Tribunal found in *Davids/CBL*) that as the chains are national players who make decisions at the national level, the market would be Australia-wide. Even if one took the alternative view that there are a series of local oligopolies in grocery retailing, it might be argued that the areas overlap at the margins and so are all interconnected directly or indirectly. It is unclear whether the Courts would determine if the “ripple effect” stops at the edge of towns and cities, or would conclude that the relevant market is at least regional. The Commission [ACCC] has endeavoured to take a commercially realistic view of the market, and has examined acquisitions of chains at the state level. (ACCC 1999b, pp. 32–3)

Importantly, the acquisition of an individual business by either a chain or another individual, particularly in smaller centres, simply involves a change of ownership and a transfer of assets and does not necessarily involve any lessening of competition. Furthermore, the ACCC’s role does not involve protecting firms or individuals from competition, even where the intensity of the competition may result in the demise of the firm. The ACCC said:

... while intended to prevent conduct which is anti-competitive, vigorous and effective competition may force rivals from the market. The section [Section 46] will not be breached merely because competitors in a market are being hurt. Damage to a competitor may be a manifestation of the competitive process. (ACCC 1999b, p. 28)

It is clear that the more isolated and smaller a town is, the less competition there will be between providers of goods and services. However, this of itself does not mean that intervention is a solution to a (natural) lack of competition. In many respects, it is the nature of business and markets that dictates less competition due to lower throughput, and it would not be reasonable to expect uniform national prices or standards of service.

Nevertheless, there are many cases where the involvement of the ACCC has brought about demonstrable community benefits for people in country Australia and the community more generally. Some examples of the ACCC's involvement are provided in box 12.1.

Box 12.1 ACCC action against anti-competitive behaviour

- The ACCC took action against BHP in the Queensland Wire Industries case, which involved BHP refusing to supply fence posts to a small firm which was competing with BHP in retailing wire fences to rural producers.
- Action was taken against Pacific Dunlop for fixing the price of foam used in furniture.
- An ACCC investigation stopped the price-fixing by a group of aerial spreaders of superphosphate.
- The ACCC opposed Coles Myer's attempt to acquire 75 per cent of the West Australian grocery market.
- McPhees was fined \$4 million for fixing freight express services in Victoria.
- North West Frozen Foods was fined for fixing the prices of frozen foods supplied to restaurants, hotels and other food outlets in Tasmania.
- Ampol-Caltex provided an undertaking to the ACCC to allow Woolworths and other players to enter regional markets so as to provide greater competition in the supply of petrol.

Sources: Asher (1998); Fels (1998).

12.3 Community and universal service obligations

A community service obligation (CSO) is essentially a requirement to engage in non-commercial activity in order to meet a social objective. More specifically, a CSO arises when a government requires an enterprise to carry out activities relating to outputs or inputs which it would not elect to do on a commercial basis, and which the government would not require other businesses in the public or private sectors generally to undertake, or which it would do commercially only at higher prices.

As CSOs would not normally be provided by competitive business enterprises, governments have instituted a range of delivery mechanisms. A common approach is through cross-subsidisation. This entails charging one group of users more than the costs of a service (ie taxing the use of the service) so that the service can be provided to another group of users at less than full cost (ie partly subsidising provision of the service). In addition to 'taxing' certain groups of consumers, the

restrictions on entry that is usually necessary to use cross-subsidies to promote social objectives lessens competition.

For example, Australia Post provides a nationally uniform 45 cent letter service which is not sufficient to cover delivery costs in many parts of country Australia, but more than covers most costs in metropolitan areas. A cross-subsidy typically requires the creation of a government monopoly service provider to stop others from competing (and reducing prices and returns) on commercially viable activities. Consequently, the introduction of competition reduces the ability of the CSO provider to use cross-subsidies to fund the services. Telstra said:

As competition erodes Telstra's margins in profitable areas, the ability to fund community service obligations in rural areas and make the necessary investment to compete with new players, becomes increasingly constrained. (sub. 137, p. 3)

The use of price controls funded by cross-subsidies to promote social objectives may deter new competitors from entering the market and providing consumers with a wider choice of services. For example, in relation to the price capping of telephone access charges, Telstra said:

Price caps currently set the cap for customer access charges below the cost of supply. ... The access deficit is currently recovered by transfers from local calls, and national and international long distance calls, thereby inflating the costs of these services. Whilst the price controls are important in ensuring affordable access, mandating uneconomic pricing raises the barriers to entry in high cost areas and inhibits competitors from providing alternative services. (sub. 137, p. 17)

Furthermore, the use of cross-subsidies, means that it is often difficult to determine the actual cost to the community of providing the service.

To overcome these problems, another approach is for governments to fund the cost of a CSO through the budget — ie with funds from taxpayers in general rather than other users of a specific service. This would involve a direct payment to a private business or GBE for the delivery of the CSO (eg for private airlines to subsidise the cost of flights to remote communities).

CSO issues arise in a number of instances under NCP reforms. For example:

- the 'public interest' criteria include 'social welfare and equity considerations, including community service obligations';
- before exposing a public monopoly to competition, governments need to review 'the merits of any CSOs undertaken by the public monopoly and the best means of funding and delivering any mandated CSOs'; and
- governments review CSOs provided by their businesses when assessing how to apply competitive neutrality reforms.

NCP and the provision of CSOs to country Australia

Commonwealth, State, Territory and local governments direct their government business enterprises (GBEs) to provide CSOs over a range of services such as telecommunications, mail, water, rail and electricity. The objective of many of these CSOs is to ensure that people in country Australia, as well as householders in metropolitan areas, are not disadvantaged. Metropolitan areas benefit from CSOs, particularly to subsidise urban transport. For example, in Queensland the average subsidy per urban rail passenger is more than five times the average fare paid by passengers (PC 1999e).

The provision of CSOs, which often involve large amounts of money, is important in meeting the commercial and social needs of country Australia. For example, the universal service obligation (USO) which provides country Australia with access to adequate and inexpensive telecommunication services is important in overcoming the disadvantages faced by people and businesses outside metropolitan centres. The USO enables many consumers to be provided with telecommunication services at prices which do not cover the cost of their provision. Table 12.1 illustrates the costs of providing telephone services to different geographic regions.

Table 12.1 Line and call conveyance costs by geographic area

	<i>CBD</i>	<i>Metropolitan</i>	<i>Provincial</i>	<i>Rural/ remote</i>	<i>Average</i>
Line costs (\$ per year)	132	347	287	590	349
Call conveyance costs (cents per minute)					
Trunk exchange	0.40	1.20	1.50	2.80	1.41
Local exchange	0.20	1.10	1.40	2.70	1.25

Source: ACCC (1999a).

The ACA recently assessed the cost to Telstra of providing the USO at \$580 million. However, the Commonwealth Government has legislated to cap the USO at \$253 million for 1997-98. The Commonwealth Government intends to continue to cap the USO until new arrangements are introduced in 2000-01, following a review of the USO funding arrangements (Alston 1999). The USO is being extended to provide all Australians with suitable telecommunications services to enable faster downloading of material from the Internet.

Similar benefits are provided to country Australia by Australia Post through the standard letter service which provides a letter service to all parts of Australia at a

single uniform rate. Australia Post estimated the net cost of providing this CSO at \$67 million in 1996-97.

Many participants expressed concerns that NCP required governments to remove or reduce CSOs. This is not the case. NCP does not preclude governments from providing CSOs. The Government in tabling the NCP legislation said:

It [NCP] includes no mechanisms or incentives for governments to reduce their commitment to the effective delivery of these CSOs. (Commonwealth of Australia 1995)

The Industry Commission noted that:

The national competition policy reforms are not intended to reduce the commitment of governments to effective delivery of CSOs. On the contrary, they will facilitate a more careful and systematic consideration of the identification and implementation of these requirements. (IC 1997a, p. 1)

The Hawker Committee also noted similar concerns. It reported that:

Competition reforms are not about winding back CSOs, but are more concerned with the most cost effective means of delivery ... NCP has reinforced and encouraged a greater awareness of what CSOs are, what they cost, how they are funded and how they are able to be delivered. (Hawker 1997a, pp. 4.60, 5.42)

Under the NCP, governments are able to continue or increase the level of CSOs to meet these needs. The NCC has stated that reviews may recommend retention of, or increases or decreases to, any CSOs provided by a government business. Indeed, the NCC's review of Australia Post (NCC 1998d) included twelve recommendations to maintain or strengthen CSOs and to provide guarantees that services would be maintained.

Nonetheless, there is a widely held view that services will be lost if governments achieve greater transparency through mechanisms such as full cost accounting and/or pursuit of a commercial rate of return on assets. It is contended that this will put pressure on uniform pricing approaches and lead to the unwinding of the cross-subsidies needed to fund CSOs. For instance:

The increased focus on profitability has greatly increased pressure on [Government Trading Enterprises] to eliminate cross subsidisation and loss making social services in order to improve their commercial performance. The most vulnerable and affected customers are businesses and residents located outside the metropolitan area. (Regional Development Council of Western Australia, sub. 33, p. 6)

CSOs will be diluted over time and become subject to political power of the metropolitan constituency. (Mount Isa City Council, sub. 54, p. 1)

... cross subsidisation avoids the sovereign risk associated with government budgetary funding, which can be subject to varying political pressure from year to year. (Regional Development Council of Western Australia, sub. 33, p. 7)

During the Commission's visits, many participants raised objections to the (prospective) introduction of cost-reflective, rather than uniform, State-wide charges. Often these complaints reflected State government policy choices which are separate from NCP (see chapters 5 and 6).

The extent and level of subsidised services provided as CSOs is a political decision for governments. As the Australian Chamber of Commerce and Industry pointed out:

... it is open to governments to deliver subsidised services to regional/rural Australia under national competition policy; that they may choose not to do so is a matter for political resolution. (sub. 195, p. 12)

Indeed, all jurisdictions reviewed their approaches to the delivery and funding of CSOs prior to NCP. This has resulted in a shift towards greater transparency and direct funding rather than cross-subsidisation (Hawker 1997a). The Commission endorses the recommendations of the Hawker Committee that:

- all CSOs be defined explicitly and their details made publicly available (Hawker 1997a, p. 30); and
- governments require their businesses to include in their annual reports and corporate/business plans detailed information on the objectives, definition, costing, funding and contracting arrangements for CSOs (Hawker 1997a, p. 40).

The Commonwealth Government has agreed to these recommendations.

FINDING 12.1

NCP does not mean that the provision of community service obligations to country Australia must be curtailed. However, it will enable the wider community to assess, in a transparent manner, the costs and benefits of providing these services.

FINDING 12.2

The provision of community service obligations reflects political judgements about the equitable provision of services to people throughout Australia. The Commission's recommendations relating to better provision of information about NCP should help to ensure that governments do not abrogate their responsibilities to provide an 'adequate' level of services to communities in country Australia by claiming that cost-cutting measures are dictated by NCP.

In view of the level of funds being provided and the legislative arrangements in place, it would appear that Australian governments remain committed to using CSOs as a key measure in meeting the economic and social needs of country Australia.

12.4 Provision of services to country Australia

The services provided by governments and the private sector are part of the social infrastructure of communities in country Australia (eg education, health, employment, training and welfare services). Also, these services have helped to maintain the viability of many country communities by acting as ‘stabilisers’ which can assist communities to ride out short-term adjustment shocks.

Professor Quiggin pointed to the past role of many services (both government and private) as ‘stabilisers’ for country communities:

In the past, the existence of stable employers like banks, post offices, and so on tended to cushion the impact of adverse economic shocks. These stable activities helped towns faced with a temporary downturn in key industries to ride out the storm, and permitted a more gradual adjustment to permanent changes requiring a contraction in activity. In an increasingly market-oriented economy this stabilising effect is lost. (sub. 12, p. 25)

Consequently, many participants were concerned with declining access to services (often as a result of rationalisation and contracting of services by governments) and more generally about the impact of the withdrawal of services on the viability of country communities. For example, the Tamworth City Council drew attention to:

... the viability of regional centres which are constantly under threat from a wide range of government policies/funding/service level cuts. (sub. 57, p. 3)

Cooma-Monaro Shire Council spoke of:

... the added burden to rural towns of the State Government’s centralised policies, where Government agencies have been closed and staff transferred to metropolitan centres. (sub. 48, p. 4)

The Murray and Riverina Regional Development Boards commented:

The loss of many basic services to rural and remote Australia has meant more than just the loss of access to government agencies and other services. In many cases, the loss of these services threatens the viability and sustainability of entire communities. (sub. 109, p. 3)

The Cattlemen’s Union of Australia drew attention to some of the less tangible, but important, social consequences of the loss of government employees:

One possibly unforeseen consequence of government and semi-government services leaving country towns is that the relatively well-educated young women who come to work in these places often married the local rural boys and stayed ... With most country girls seeing little future for themselves in the rural areas and moving to cities there is a severe shortage of young women to be life partners for the young rural men. (sub. 89, p. 5)

Smaller country communities sometimes have a declining population base which has led to a surplus of some social infrastructure. Often the declining population base is the result of improved economic infrastructure which enables a community to take advantage of a wider range of services provided in a larger centre or (sponge city). Dick Adams MP said:

It's building the road. Some communities have spent 40 years saying, "We need to get the road in here". When the road comes in there everybody leaves or every body moves out. (trans., p. 405)

As this excess capacity typically costs more (per capita) to maintain, services tend to become centralised in provincial centres (or sponge cities). In turn, this can bring about a further decline in population. Many participants raised the 'domino' effect on a country community's population from the loss of a service. The Junee Shire Council said:

... if all those people left town that have lost their railway jobs, their families go with them. ... But then that has a domino effect in that those children leave school, the school gets downgraded and – the banks close etcetera etcetera and our town is just left a shell. (trans., p. 980)

De-Anne Kelly MP said:

The steady erosion of a small town develops its own rapid momentum downhill. As small business fails, Governments respond to the decline in population by, for example withdrawing school teachers, downgrading a whole range of services including police, health and transport and generally consigning such communities to the scrap heap of history. (sub. 47. p. 4)

There is no precise population size or critical mass at which a town begins to lose services and population. However, the use of formulas such as student-to-teacher and police-to-population ratios by governments act to reduce services as population declines. Sorensen and Epps (1993) pointed out that the 'fulcrum point' of population size for a town — above at which there is potential for growth and below at which towns may be struggling to retain their population and services — varies.

In more isolated areas, smaller towns (eg Longreach) usually perform the functions carried out in larger towns closer to the coast. Consequently, the 'fulcrum point' or critical mass of population required to retain services and population in a town will be lower in isolated areas than in the more closely settled areas.

The analysis undertaken to model the regional impacts of the NCP reforms shows that growth in employment in government services tends to be highest in regions with the fastest population growth.

With the shift to more centralised service provision, many residents in country Australia felt their needs were being ignored. For example, the Tumut Shire Council, in relation to the provision of employment services, said:

These unfortunate citizens of Australia now have to access these services in Wagga Wagga 100 km away, with no public transport available between the two centres. When challenged, a manager of an organisation providing these services in Wagga Wagga said that if they can't travel to Wagga Wagga they could access the services (training etc) by telephone. (sub. 43, p. 6)

This has led to a sense of frustration in having to deal with both public and private service providers over the telephone in distant call centres rather than through face-to-face contact. Consumers in urban areas also face similar problems in dealing with call centres located out of their area.

Policy responses

Governments have recognised that the rationalisation of government services has caused problems for country Australia. As a result, a number of measures have been taken to improve access to services and increase the level of services in country Australia. These measures are likely to go some way in addressing the concerns raised by inquiry participants and improving the competitive position of country Australia, particularly in relation to improved telecommunications services.

Rural transaction centres are being established to provide primary transactions services such as banking, Medicare claims, postal and fax services to communities in country Australia experiencing the closure of bank branches and other services. Nearly 500 of the centres are to be established and are to be funded by \$70 million over 5 years (Department of Transport and Regional Services, sub. 207).

Some governments are now offering inducements for doctors to set up practices in country Australia. The Commonwealth Government has announced that it would spend \$43 million over four years to provide additional incentives for general practitioners to practise in country towns. Also, the Commonwealth will provide around \$42 million to establish 30 Regional Health Service Centres in rural and remote areas, nearly \$4 million to establish community legal services in regional centres without access to these services and \$8 million to provide a 'fly-in, fly-out' general practitioner (GP) service for women living in rural and remote areas who do not have access to a female GP. To improve Centrelink services in country

Australia, \$27 million is to be provided to establish rural call centres in Maryborough (Queensland) and Port Augusta (South Australia) to provide tailored service to Centrelink customers in country Australia (Anderson and Macdonald 1999, sub. D301).

In addition, to improving access to services, other measures have been taken to improve the level of services in country Australia. For example, the Regional Telecommunications Fund, *Networking the Nation*, will provide more than \$250 million to reduce regional disparities in access to telecommunications services between regional, rural and metropolitan areas. In addition, the Commonwealth has undertaken to ensure that mobile phone users will have access to a network with the phasing out of the analogue network in January 2000.

Further expenditure for improved telecommunication services for regional Australia is to be provided as part of the 'social bonus' from the sale of the next 16.6 per cent of Telstra. This will include \$120 million to provide SBS television to communities of more than 10 000 people and fill in television reception 'black spots', \$150 million to provide untimed local calls to remote telephone users, \$25 million to provide continuous phone coverage along Australia's major highways and \$25 million to extend Internet access at local call rates to all Australians irrespective of location (Anderson and Macdonald 1999, sub. D301).

Such measures will benefit particular communities, but are unlikely to reverse the overall process of centralisation and the shift of services to the provincial centres. Public finances are limited and it would be impossible to provide every country community across Australia with the equivalent level of services available in larger centres and metropolitan areas.

Other communities have developed their own alternatives to the loss of services. For example, community banks have been established in some towns to replace services lost as a result of the closure of branches of major banks. The reforms to the regulatory framework covering the financial sector have facilitated the entry of new competitors and the emergence of innovative ways of providing services.

These policy measures are aimed at improving the access to services for those outside the larger centres. They will also help to improve the quality of life in these communities and provide a 'stabilising' effect for some country communities to short-term adjustment shocks whether market-induced, such as a decline in commodity prices, or from government policy, including any transitional impacts of NCP.

Horizontal fiscal equity

While many of these policy responses are relatively recent, ongoing measures are in place to support the provision of services to country Australia through the system of intergovernmental transfers according to the principle of horizontal fiscal equity (HFE). Under this principle:

- The Commonwealth, through a system of grants, provides each State and Territory with the financial capacity to provide the ‘average’ standard of services to their citizens. It is assumed that the State or Territory will provide each service at an ‘average’ level of efficiency and make an ‘average’ effort to raise revenue from its own sources.
- The financial assistance provided is designed to achieve equal fiscal *capacity* across each State and Territory — not a similar level of services. The grants provided are untied general revenue grants, leaving each jurisdiction free to decide its own spending priorities.
- The Commonwealth Grants Commission (CGC) is responsible for recommending the level of Commonwealth grants provided to each State and Territory. As the formula used by the CGC standardises expenditure and revenue capacities, most States — particularly the smaller jurisdictions such as the Northern Territory and Tasmania — receive larger amounts of Commonwealth funds on a per capita basis than the larger States (see table 12.2).

Table 12.2 Horizontal fiscal equity, 1997-98

	<i>Actual financial assistance received</i>	<i>Actual per capita financial assistance received</i>	<i>Donor/recipient status^a</i>
	\$ million	\$	\$
New South Wales	6 326	1 005	-140
Victoria	4 640	1 008	-137
Queensland	4 046	1 170	25
Western Australia	2 037	1 125	-20
South Australia	2 083	1 399	254
Tasmania	841	1 776	631
ACT	339	1 090	-55
Northern Territory	1 016	5 518	4 373
Total	21 328		

^a Difference between actual per capita assistance received and assistance based on equal per capita grants (\$1145). Note: All numbers have been rounded.

Source: CGC (1998).

In addition to promoting HFE between States and Territories, the Commonwealth Government provides funding to local government authorities to meet the ‘average’

standard of local government services to their citizens under the provisions of the *Commonwealth Local Government (Financial Assistance) Act 1995*. Under this legislation:

- Each State and Territory is required to establish a local government grants commission to make recommendations on the distribution of funding to local government authorities to the appropriate State or Territory Local government Minister, and subsequently the Commonwealth for approval.
- The grants to local government authorities are untied. The grant for local governments across Australia in 1997-98 was \$1.213 billion, made up of an equalisation component of \$840 million to equalise the financial capacity of local government authorities and a roads component of \$373 million.
- The equalisation component is distributed on a population basis (eg New South Wales with 34 per cent of the Australian population receives 34 per cent of the funds) and the local roads component is distributed on a formula related to each local government authority's population, local road length and bridge length (New South Wales Local Government Grants Commission 1998).
- The grants commission in each State and Territory then makes determinations to distribute the equalisation component to equalise the fiscal capacity of shires and councils within each jurisdiction. This results in rural and regional local government authorities receiving significantly larger amounts on a per capita basis than metropolitan local government authorities (see table 12.3).

Table 12.3 Financial Assistance Grants entitlements for selected New South Wales local government authorities, 1997-98

<i>Local government authority</i>	<i>Total recommended grant</i>	<i>Total recommended grant on a per capita basis</i>
	\$ '000	\$
Rural		
Tenterfield Shire	2 007	287
Moree Plains Shire	3 430	210
Parkes Shire	2 815	191
Cowra Shire	2 227	180
Regional		
Lismore City	3 684	81
Albury City	2 830	68
Orange City	2 164	62
Metropolitan		
Blacktown City	9 916	42
Strathfield Municipal	516	19
Woollahra Municipal	945	18

Note: All numbers have been rounded.

Source: New South Wales Local Government Grants Commission (1997).

The South Australian Government (sub.D298) and the Northern Territory Department of Local Government (sub.D299) raised the issue that fiscal equalisation does not apply fully to local governments as the funding is allocated to provide a similar level of local government services within each State instead of across Australia. However, allocation of funds to enable local governments to provide a similar level of services across Australia would raise a number of issues.

- The roles and responsibilities of local government vary between each State. Given these differences, distributing funds using the average standard of services provided by local governments across Australia instead of within each State could disadvantage local governments in jurisdictions where they have greater responsibilities and advantage those in jurisdictions where they have lesser responsibilities.
- Local government, unlike the States and Territories, is not constitutionally recognised and owes its existence to State and Territory legislation. This could lead to jurisdictions engaging in strategic behaviour to configure their local government structures and/or boundaries in such a manner to maximise the grants provided to local government within their jurisdiction.
- There may be opposition to change from certain jurisdiction. If the grants were distributed to equalise the fiscal capacity of local governments across States instead of within States the distribution of these funds between jurisdictions would alter significantly.

The system of grants provided to State and local governments does not require a similar level of services to be provided — only that each government has the fiscal capacity to provide a similar level of services. To attempt to provide similar levels of services would require the Commonwealth to make general revenue assistance conditional on the recipients following similar policies. This approach would run counter to the operation of a Federal system. Nevertheless, in areas where specific outcomes are sought, the Commonwealth does provide conditional or specific purpose payments to State, Territory and local governments.

This system of Commonwealth transfers to State, Territory and local governments in the pursuit of HFE is based on disadvantages and systematically accommodates changes in the fiscal disadvantages faced by citizens in country Australia.

12.5 Regional development

Regional development, and the benefits it provides to recipient locations, continues to be an issue for country Australia. As Sorensen said:

There is hardly a rural community that does not hanker after the benefits of economic growth and its corollary, population expansion. It is not difficult to understand the attractions of more community services, a greater diversity of employment and social activity, better retail and commercial services, and rising property values ... (1990, p. 36)

Commonwealth and State governments have had a long involvement in promoting regional development. Many of participants expressed concern that governments are no longer committed to the development of country Australia. Many believed that what Sorensen (1994) has termed the strong moral obligation felt on occasion by Commonwealth and State governments to reduce regional disparities no longer exists.

Government regional development policies

What actually constitutes a regional development policy is not always clear. For example, capital works expenditure or infrastructure provision in non-metropolitan areas contribute to the development of a particular region. Other government policies are specifically labelled as regional development policies. Generally, these policies have been targeted at reducing regional disparities and balancing the development of country Australia with metropolitan centres by dispersing economic and population growth away from metropolitan centres. They may also target specific firms or industries to establish or relocate into a certain region. The discussion focuses primarily on the latter group of policies.

The Commonwealth's direct involvement in regional development has varied over time. Its most significant involvement was through the development of regional growth centres in the early 1970s and with the Regional Development Organisation (RDOs) in the early 1990s. The Commonwealth's current administrative capacity on regional development rests with the Department of Transport and Regional Services. However, regional development policies are undertaken across different departments in a 'whole of government' approach. For example, the Agriculture-Advancing Australia programs, which provide rural adjustment assistance in addition to extension services, such as farm business skills and assistance for the development of rural communities, are delivered by Agriculture, Fishing and Forestry - Australia (AFFA). Telecommunications programs, such as The Regional Telecommunications Fund, *Networking the Nation*, to reduce regional disparities in access to telecommunications services between regional, rural and metropolitan areas, are delivered by the Department of Communications, Information Technology and the Arts.

Unlike the Commonwealth, most State governments have had a longstanding involvement in promoting regional development through the decentralisation of economic activity. State government regional development policies provide grants, information and facilitation services to ‘revitalise’ regional towns on a general basis. They also provide targeted assistance, such as tax concessions or subsidised infrastructure, to attract specific businesses to regional areas.

Have regional development policies been successful?

There is a widespread acknowledgment that many regional development programs have had limited success.

The decentralisation policies to develop regional growth centres during the 1970s are a case in point. While Albury–Wodonga, with the largest share of funding, fared the best, expected population growth was never realised. The Monarto Development Corporation was wound up in 1980-81 after a long period of declining support and the Bathurst–Orange Development Corporation sold off its land stocks in response to slower than expected growth. The Murray Valley Voice said:

I think you’ll find is that Albury, to some degree, received millions of dollars in assistance to try to grow and it had basically very little effect. It is only in the last 10 years I think that growth has actually re-occurred. (trans., p. 312)

Sorensen commented that:

... the Department of Urban and Regional Development was a by-word for grandiose ideas and wasted expenditure. (1994, p. 33)

The Department of Urban and Regional Development was abolished in 1976 after these policies were judged to be relatively unsuccessful in promoting regional development (IC 1993b).

The Regional Development Program launched by the Commonwealth in 1994 was intended to facilitate the creation of regional leadership structures through RDOs. The IC (1996c) found considerable uncertainty and scepticism in local government about the intended role of the RDOs and the reason for their establishment. Some local governments held the view that they were vehicles to marginalise or bypass State governments, or vehicles to abolish local governments. More importantly, there was scepticism about the ability of the RDOs to achieve anything substantial. Considerable time and resources were spent on meetings, travelling, studies and consultancies with little to show in terms of measurable benefits to business in the region. As the Department of Commerce and Trade Western Australia said:

We couldn’t really find any economic advantage or participation improvement as a result of the scheme. (IC 1996c, p. 71)

In 1996 the Regional Development Program was abolished.

State government regional development schemes have not been as large scale as Commonwealth schemes and are more numerous given the continuous involvement of state governments in promoting regional development. However, they too tend to be viewed as ineffective. As the Economic Planning Advisory Council (EPAC) commented:

Despite the popular and political appeal of these ideas, there is a fairly general perception that they have been relatively unsuccessful, and major new schemes seem unlikely for the foreseeable future. (1991, p. 45)

The lack of success is due to the inability of these policies to counteract the broad long-term economic forces affecting country Australia. Given that governments have limited budgets, attempts to reverse these long-term economic forces are likely to be costly and at the expense of other policy areas where there is a greater return on government expenditure. As Sorensen noted:

Attempts to resuscitate particular localities by swimming against the economic tide are apt to be difficult and expensive. (1994, p. 37)

As regional development policies promoting decentralisation or special growth centres have been ineffective in reversing long-term economic forces, governments have turned increasingly to policies based on attracting a specific firm or industry to a region through the use of incentives. The IC (1996c) report into *State, Territory and Local Government Assistance to Industry* found that governments provide incentives or selective assistance for a variety of reasons which included:

- the need to be seen to be doing something about problems, such as unemployment, in certain regions;
- a misunderstanding of the benefits, as a result of flawed use of evaluation techniques which overstate benefits; and
- a fear that the project will be 'lost' to other jurisdictions or regions.

The report found that providing selective assistance in competition with other jurisdictions to attract investment at best shuffles employment between regions and, at worst, burdens the tax and rate payers, while imposing costs on other jurisdictions and the economy as a whole.

The Organisation for Economic Cooperation and Development (OECD) said:

While such incentives may allow firms to lower their production costs, the resultant advantages are only marginal; their impact is temporary and, in the view of many studies, limited and uncertain. (1997, p. 53)

The dilemma for government is that, if assistance does not improve the underlying competitiveness — or attractiveness to investors — of the region, there may be pressure for it to become permanent. This would most likely reduce the overall efficiency of the economy over-time and involve transfers from the wider community. The Bureau of Industry Economics (BIE), in regard to the use of selective assistance to promote regional development, said:

There is a danger of perpetuating a culture of rent seeking, and wasting large amounts of public money. (BIE 1994, p. 98)

Furthermore, the dangers of ‘lock-in’ effects are greater where assistance is targeted at individual firms. Governments have never found it easy, politically or administratively, to terminate assistance to industry. This difficulty is multiplied where the fortunes of a region (electorate) are connected to that of a specific firm.

Despite their lack of success and the high cost associated with many regional development policies, governments want to ‘do something’ in respect of regional development and the people in country Australia continue to express a desire for further development. Consequently, in many cases government involvement in regional development appears to have taken the form of statements which focus on objectives such as enhancing the overall quality of life in the region, attracting skilled jobs, strategic leadership and community empowerment without any clear policies as to how such objectives are to be achieved.

Given that regional development policies are unlikely to be able to reverse, or even halt the broad long-term economic and social forces affecting country Australia and the large costs involved in providing selective assistance to target particular firms or industries, what is an effective role for government in regional development?

The role for government in regional development

There are a number of areas in which governments at different levels can be effective in promoting regional development. These largely involve activities where normal market forces are unlikely to meet the needs of regional communities. They include assisting in the provision of information, self-help initiatives, removing impediments to development and improving policy coordination.

A number of earlier Industry Commission reports addressed these matters in some detail. These include the report on *Impediments to Regional Industry Adjustment* (IC 1993b), *Taxation and Financial Policy Impacts on Urban Settlement* (IC 1993c), *State, Territory and Local Government Assistance to Industry* (IC 1996c), and *The Textiles, Clothing and Footwear Industries* (IC 1997f).

Information

Governments can assist in providing firms and individuals with accurate information concerning the benefits or performance of different regions or by making resources available to local governments for such information provision. The Cowra Shire Council said:

There is a great deal of ignorance by city based people concerning lifestyle, professional expertise, workforce skills and locational factors in the bush ... One great difficulty which faces country towns is for them to project the reality that industry can and will prosper in the bush. (cited in IC 1993b, p. 344)

Information problems are likely to be addressed most effectively by the local communities themselves. A number of towns have taken initiatives which utilise their local knowledge and infrastructure to encourage regional development. EPAC said:

Such approaches identify and/or build on specialties or capacities of regions and so make the unique features of a particular area more attractive. (1991, p. 46).

Self-help initiatives

Local governments and regional development organisations can play a useful role in facilitating regional development and improving a region's capacity to adjust to changing economic circumstances. The South Australian Regional Development Taskforce (1999) recognised the importance of harnessing the energy of the people in the local community to promote regional development. The Commission visited towns and regions which have taken initiatives to utilise local knowledge, infrastructure and services to encourage regional development.

For example, the LaTrobe Shire Council told the Commission that despite the restructuring which has occurred in the Victorian electricity industry during the late 1980s and early 1990s, the region possesses a comparative advantage in providing energy-intensive industry with access to power. It said:

Latrobe shire has suffered a dramatic turn around due to restructuring, which has not been driven by national competition policy of course. ... Over 6 000 jobs have been lost directly through the restructure of the power industry, which is around 10 per cent of our total population. ... Whist there has been a population decline as a result of the restructuring, we don't see that that has to remain a position of decline. Certainly there is significant infrastructure that has been built up over the many years of public sector involvement.

So there's excellent comparative advantages, and the ability to sustainably support larger population and industry base. (trans., pp. 542-4)

To this end, the Council has proposed an energy park to provide industrial consumers with lower cost power supplied directly from the region's electricity generators. Similarly, as noted above, some country towns have set up community banks in response to branch closures by major banks.

Removing impediments to development

Removing impediments to regional development is a longer-term undertaking which will not provide quick fixes for the plight of some small country towns.

NCP has an important role in removing impediments to regional development by encouraging governments to review anti-competitive legislation through the legislative review process. The National Rural Health Alliance said:

Substantial elements of it [NCP] do have a positive regional development impact – reforms to regulations constraining Queensland sugar production are a case in point. (sub. D289, p. 9)

One area which could have implications for regional adjustment is progress with labour market reform. While regional labour markets have probably always allowed greater informality and flexibility than those in the cities, further moves to widen the scope for decentralised and unfettered workplace bargaining, coupled with other positive attributes of regional labour markets such as a stable and reliable labour force, could help to make regional communities relatively more attractive to investors.

There was concern that Commonwealth Government regulations which restrict the number of general practitioners had, in turn, limited the availability of medical services in country Australia. For example, the Cattlemen's Union of Australia raised concerns about:

... a decision by the Immigration Department to police a regulation requiring foreign doctors to complete their Medical Board Examinations before they come to Australia to work in the Public Hospital system with Australian Residency status. Previously, doctors were being allowed Residency Status and to practice in the Public Hospital System but were only able to take on private practice after completing their board examinations. This change of attitude has already led to problems in some rural and regional hospitals. (sub. 89, pp. 4–5)

Other participants expressed concern about the Commonwealth's decision to restrict the provision of Medicare provider numbers. For example, the Australian Doctors Fund said:

... the decision by the federal Minister for Health, Dr Michael Wooldridge, to deny Medicare rebates to patients who choose to be treated by a recently graduated doctor who is not part of a General Practitioner training program is an unjustified government

created impediment to the supply of medical services particularly in rural and regional Australia.

Young doctors who may be happy to enter solo practice in a country town early in their careers when they are free from the burdens of family responsibilities are now forced to jump through a maze of hoops to obtain a permanent Medicare provider number. (sub. 105, p. 14)

This latter decision has also come under scrutiny by the NCC which in its 1996-97 Annual Report, stated that 'the Commonwealth is yet to provide evidence of a substantive net public benefit assessment in support of its 1996 legislation limiting Medicare provider numbers available annually to new doctors, thus restricting entry to medical practice' (NCC 1997a, p. 69).

A further impediment relates to the degree of 'red tape' imposed on businesses, particularly small businesses which are heavily represented in country Australia. This impediment has been acknowledged by governments. For instance, in March 1997, the Prime Minister, announced the Government's response to the Small Business Deregulation Task Force (Bell 1996):

Too often in the past, government has been a burden for small business ... What we are hearing is that small business wants to get on with the job rather than be bogged down in paperwork and forced to deal with a multiplicity of overlapping regulatory bodies. Small business is saying that it cannot afford excessive overheads and on-costs ... (Howard 1997, p. iii)

The Government's response ranged over issues as varied as statistical burden, taxation, employment, assistance and streamlining regulation. It established performance indicators against which to measure the success of these initiatives to reduce red tape. Some progress has been made, but more remains to be done.

Improving policy coordination

The policies of different levels of government — and sometimes the policies of a single government — can interact in a way which means that they pull in different directions. For example, there may be inconsistency between government policies that consolidate or withdraw services from regional centres and policies to promote regional development. In other instances, policies may be poorly designed and/or lead to unintended consequences.

Australia-wide policies which cannot accommodate the differing circumstances of individual regions can also impede regional development and impair a region's capacity to adjust to change by seeking new activities. For example, city-based development approval processes may be inappropriate for some regional conditions.

Similarly, pollution standards, such as emission standards for motor vehicles, designed to protect the amenity of people residing in major urban residential areas may be less relevant for inland communities. Although not always feasible, tailoring environmental criteria to regional conditions could provide some communities with a competitive advantage against the coastal cities.

Some policies intended to benefit country Australia have had the opposite effect. For example, State government policies which forced mining companies to build towns created the conditions for significant adjustment problems once the resource was exhausted. Likewise, the well-intentioned soldier settlement policies created lingering adjustment problems in certain regions of Australia. Diversification policies which subsidised TCF factories in some country areas without due consideration to the long-term viability of these factories have had much the same effect. Another example is the practice adopted in some States of putting disadvantaged people into public housing in areas of high unemployment, or in areas where there is a strong mismatch between their skills and the skill requirements of the region, which is simply bad policy. Governments need to consider carefully the ramifications of policy actions which, at first blush, seem desirable.

Sustaining regional economic growth

In effect, to sustain regional economic growth, government policies need to be able to raise the productivity of a region or lower its costs to overcome any inherent locational disadvantage. Policies which serve to create an economic climate conducive to growth and investment across *all* regions, and for *all* industries, are the most likely way to achieve these objectives, with benefits both regionally and for the wider economy. Consequently, governments have a vital role to play in setting the scene for economic development.

This approach of ensuring that the fundamentals are right, is a trend that is evident other advanced economies. The OECD said:

Among regional policy practitioners, this more broad-based, more economic approach is gaining ground. First, it revives the traditional approach to regional policy, by addressing all regions. It might contribute to a widening of the performance gap in the long term, given the competitive advantages and clustering effects that dynamic regions may benefit from. However, in the medium to long term it will help to strengthen growth, the potential for competitiveness and the capacity to create lasting employment in all regions. (1997, p. 13)

The OECD also said:

The aim is to work on the region's potential for development not on development itself. (1997, p. 13)

Importantly, policies which focus on creating an economic climate conducive to growth, in contrast to policies which target particular firms or industries, help to create a competitive environment in which the benefits of NCP are likely to be realised more widely.

In short, Australian governments have had an ongoing role in the provision of compensation to lower the costs of living and doing business in country Australia through the use of CSOs, the provision of infrastructure and the system of intergovernmental grants to provide an average standard of services to Australians irrespective of location. These measures are likely to have an effect in mitigating the costs of implementing the NCP. The need for specific adjustment assistance for country Australia is discussed in the following chapter.

13 Coping with change

Many communities in country Australia are bearing the brunt of structural changes from a range of sources. The capacity of governments to arrest most of these forces is limited, but they can play a role in facilitating adjustment to help people and communities to cope with change. There is already a range of generally available measures to assist people to adjust to change. Where NCP and other sources of change have sharp, regionally concentrated effects, consideration of specific adjustment assistance may be warranted. This could involve difficult implementation issues.

13.1 Introduction

Australia, like all nations, has been, and will continue to be, subject to the effects of changes in the composition of its economic activities and the distribution of its population. The net effects of these changes on communities in country Australia can be readily identified (see, for example, section 1.4). As demonstrated in this report, most of the primary sources of change lie outside the province of government control — for example, fluctuations in world commodity prices, the impact of changing technology (in transport, communications and on farming and mining productivity) and lifestyle changes.

NCP reforms and a range of other government policies, which can bring about beneficial adjustments by promoting regional growth and creating the conditions for increases in real incomes, can be viewed as an overlay on this environment of ongoing change. Nonetheless, it needs to be recognised that NCP is also a source of change which, in some instances, can exacerbate the adverse economic and social consequences of changes in particular regions. The NCC (1998a, p. 4) has observed that ‘a key need is for governments to address mechanisms for dealing with the social effects of change’. With these considerations in mind, the Commission conducted a workshop in May 1999 to explore policy issues associated with structural adjustment (PC 1999g). The matters canvassed in that forum, together with participants’ comments in response to the draft report, have facilitated consideration of the efficacy of adjustment measures.

The aim of this chapter is to explore the adequacy of existing measures in helping communities in country Australia to cope with structural change. Specific issues addressed in the chapter relate to:

- Change and adjustment within the context of the existing social ‘safety net’.
- Rationales for providing additional adjustment assistance.
- When ‘specific’ adjustment assistance might be warranted, and:
 - whether it should be delivered *ex ante* (pre-reform) or *ex post* (after reform);
 - whether it should be available for market-induced and policy-induced sources of change; and
 - the form it might take.
- Some general criteria for ‘appropriate’ adjustment assistance.

Before considering the role of government in facilitating adjustment, it is useful to first look at how people adjust to change against a backdrop of a universally available social ‘safety net’.

13.2 Change and adjustment

Change has always involved people and communities making adjustments. Often this is a relatively smooth process. Where a region is growing, it may undergo large shifts in the composition of its output and employment with few adverse effects — as some activities decline or cease, others grow or new activities emerge. People who lose their jobs in declining activities can be re-employed in growing activities.

In some cases, the loss of employment may be transitory — rationalisation of employment in a government utility may be followed by opportunities with another employer in the same activity. For example, the Tasmanian Women’s Advisory Group, referred to a situation in which:

... previous HEC employees have taken redundancy and are now being employed by competitors who are doing a more efficient job. I think that’s where competition can weed out the people that aren’t performing at maximum. (trans., p. 419)

In these cases, adjustment can occur relatively painlessly, even though some people may need to rely on social security payments during the transition to a new job.

On the other hand, for regions in decline, coping with change can be difficult. In fact, even within growing regions, there will be people who do not have the skills sought by expanding activities. In these cases, retraining is an option. This may be sought through, for example, (part- or full-time) university or TAFE courses, or

through government sponsored training programs. Where employment prospects within a region are bleak, adjustment could involve employment out of the region. This strategy is common for casual agricultural and mine workers who often move between regions in response to fluctuations in production and/or mine closures.

An important adjustment mechanism for displaced workers is the provision of advanced notice and associated retrenchment packages which usually involve payment of accumulated entitlements and redundancy payments. Such packages are not available to all people — for example, farmers and the self-employed. However, retrenchment packages typically come into play when larger employers close or reduce the size of their operations (eg the closure of a mine or restructuring of utilities such as rail and electricity). Telstra award employees, for example, generally have the option of redeployment or a retrenchment package involving 4 weeks' pay for each year's service up to 5 years and three weeks' pay for each year of service thereafter. Workers aged over 50 are offered more generous packages. Telstra packages can amount to 80 weeks' pay.

Often, those with the most substantial redundancy payment tend to be older workers most at risk of not regaining employment, particularly in their home region. However, the La Trobe Shire Council voiced concerns that some former electricity industry workers had used their redundancy payments quickly in the belief, which did not come to fruition, that alternative employment within the region would be readily forthcoming:

All too many of them, in the absence of any good advice, thought, 'Good, we'll pay off the mortgage on the house,' which then promptly dropped in value, and 'we'll buy a four-wheel drive, go for a tour around Australia, and then we'll come back and we'll pick up more work because there has always been an excess supply of work in the La Trobe Valley'. Now, that was simply the history they knew, and it just didn't work out that way and there was nobody to advise them that they should adopt a different strategy. (trans., p. 560)

This example suggests that some form of financial and employment counselling — whether sought privately, or provided by the employer or governments — may have facilitated improved longer-term outcomes.

Other adjustment responses, particularly for rural Australians, can for instance include sub-dividing a farm or, where available, selling off some water entitlement — the ability to trade in water entitlements that arises from the untying of water allocations from land titles under NCP provides such an adjustment mechanism. These strategies can assist people to maintain a presence in a rural community.

However, for some people, future prospects may be uncertain for a range of reasons — such as a lack of alternative job opportunities within the region, language barriers

or an inability to retrain for jobs with better employment prospects. People's capacity to move to areas of greater employment prospects also may be hampered by family and community ties and declining house values in their home region.

For many individuals, transition costs are borne privately, but where people have difficulty in coping with change and their circumstances have reached certain thresholds, the social 'safety net' can assist with income support and retraining.

The social 'safety net'

The 'safety net' is one element of a broader progressive tax/transfer system. The current forms of income support and training assistance are outlined in box 13.1. It is apparent that the 'safety net' aims to provide income support for disadvantaged people in the community, those suffering hardship and as a transitional aid to help people cope during periods of changing employment circumstances. Education and training measures are aimed at increasing people's 'human capital' to help them obtain a new job.

Elements of the 'safety-net' assistance are based on the existence of so-called 'market failures' which can make transitional losses larger and/or of longer duration than they might be without such assistance. For instance, in response to a regional 'shock' (eg the closure of a dominant employer, or the withdrawal of a government agency, in a small town), unemployed people may be reluctant to change locations because they lack information about employment prospects outside their region. Governments (and employers) can help in this situation by providing accurate and up-to-date information about job opportunities, particularly in nearby areas.

Primarily, however, general 'safety net' measures are geared to welfare and income support rather than adjustment mechanisms *per se* (apart from schemes aimed at enabling farmers to leave the industry). The 'safety net' is based on a strong equity underpinning — almost everybody would agree that society should not leave the disadvantaged to fend entirely for themselves.

Although the 'safety net' is now quite extensive in terms of the range of assistance provided, its adequacy, in practice, cannot be taken for granted. For example, the IC, in its report on *The Textiles, Clothing and Footwear Industries* (IC 1997f), noted some weaknesses in employment assistance programs, particularly in relation to language programs for non-English speaking workers. Others also have reported on problems associated with generally available assistance measures in facilitating change — Argy (1998), for instance, has called for better integration of the social security and income tax systems to enhance the effectiveness of the 'safety net'.

Box 13.1 The 'safety net' — income support and training measures

The Commonwealth Department of Family and Community Services (DFCS) is responsible for a range of income support measures delivered through Centrelink. Centrelink is also responsible for delivering support measures from other agencies' programs, such as Agriculture, Fisheries and Forestry – Australia (AFFA).

To cover a wide range of circumstances, the suite of programs includes measures to ensure that people are provided with an adequate standard of living during periods of unemployment and more permanent measures which seek to offset particular social disadvantages. Measures include: the age pension, disability support pension, widow pension, carer allowance, mature age allowance, mature age partner allowance, parenting payment, family allowance, maternity allowance, family tax payment, double orphan pension, child disability allowance, Newstart allowance, youth allowance, Austudy, ABSTUDY, assistance for isolated children scheme, partner allowance, sickness allowance, special benefit, mobility allowance and remote area allowance.

In addition, there are schemes specifically designed to assist people in the rural sector. These include (AFFA, sub. D301):

Exceptional Circumstances Relief Payment: provides income (equivalent to NewStart Allowance) for farmers in a region or industry identified by the Commonwealth as suffering an exceptional downturn in income as the result of a discrete, rare event.

Family Farm Restart Scheme: support for low-income farmers experiencing hardship who are unable to borrow further against their assets. It provides income support and adjustment assistance of up to \$45 000 to farm families.

Retirement assistance for farmers: assistance to low income and pension age farmers living in hardship to exit from farming by 'gifting' their farm to their dependants without affecting access to the age pension. Gifting can include the value of the farm (net of debt) up to \$500 000.

The Department of Education, Training and Youth Affairs is responsible for schemes relating to education, English language courses, apprenticeships, 'jobs pathways' (ie job readiness and job search), professional development and career information.

Sources: DFCS; AFFA.

In its draft report, the Commission asked for participants' comments on the adequacy of the 'safety net'. Very few participants commented on this issue, although the Country Women's Association (CWA) considered that:

Social security payments hardly can compensate for full-time employment and much higher income support. Job placement services cannot place people in positions if work is just not available. Finally, retraining for many persons, particularly those in the older age bracket, is just not viable. (trans., p. 181)

The views of the CWA accurately highlight the situation in some parts of country Australia, but raise broad issues beyond the scope of adjustment assistance. For

example, the fact that income support tends to be set at a lower level than remuneration for employment is a social judgement based on a desire not to diminish the incentive for people to work, while, at the same time, providing adequate income support for people in times of need.

The Commission received little in the way of concerns about the *scope* of generally available assistance measures. Indeed, the ‘safety net’ is intended to address the adverse consequences of change, regardless of whether they derive from a government policy initiative or from factors outside of the control of governments. In terms of policy-induced adjustment pressures, this general approach has the advantages noted below.

- *It treats individuals in similar circumstances equally:* All people adversely affected by changed circumstances, regardless of their location or of the source of change, are treated equally. Were this not the case, those with greater ‘lobbying’ capacity may be able to obtain assistance not available to others in similar circumstances.
- *It addresses the net effects of reform:* As an *ex post*, universally available measure, problems encountered with attempting to address sequentially the effects of various reforms are overcome. For example, some reforms may impose costs on individuals whereas other reforms may provide benefits to those same individuals. Moreover, these costs and benefits may fall in different periods. A single safety net measure can account for the net impact of the varied influences which often can pull in different directions.
- *It can account for unforeseen circumstances:* It may not always be possible to determine *ex ante* all of the winners and losers from a reform. The ‘safety net’ ensures that, subject to an eligibility threshold, all of those adversely affected are supported. This is particularly important where unforeseen circumstances are not manifest until some time after a reform is initiated.
- *It concentrates on those in genuine need:* While it is generally possible to foresee which general group of individuals is most likely to be affected adversely by a particular reform (for example, dairy farmers in the case of deregulation of the dairy industry), there will be some producers within that identified category who will benefit. A ‘safety net’ will cater for the ‘losers’ of the reform. In contrast, a specific industry package could also provide windfall gains to the ‘winners’ who have no need for such assistance.
- *It supports families and individuals rather than a particular industry or activity:* There are risks associated with measures which aim to support particular industries or activities. Typically, they have been shown to be blunt, ineffective and costly instruments which can end up delaying the benefits of reform without helping families and individuals to adjust.

The advantages of a universal and general approach to meeting the needs of people adversely affected by change constitutes a clear in-principle case for continued reliance upon the ‘safety net’. Of course, this assumes that the assistance delivered via the ‘safety net’ is effective in targeting basic needs across all regions. An assessment of the range and magnitude of the benefits contained in generally available assistance measures is beyond the scope of this inquiry. However, it is important to ensure that such programs are performing well in meeting their objectives. To this end, the Commission considers that further study of these measures, with a view to ascertaining their effectiveness, may be required.

RECOMMENDATION 13.1

Governments should rely principally on generally available assistance measures to help people adversely affected by National Competition Policy reforms. The effectiveness of these measures should be kept under review.

The following section examines rationales for other, more extensive, forms of adjustment assistance to help identify those situations in which the in-principle case for reliance on general ‘safety net’ measures may be wanting.

13.3 Rationales for further adjustment assistance

In terms of facilitating adjustment, the generally available ‘safety net’ provides income support to help people cope with unexpected and/or temporarily adverse circumstances. In some situations, it may not be sufficient in helping people adjust to severe and/or concentrated ‘shocks’. In such cases, the judicious use of a well structured adjustment package could be premised on efficiency grounds — for example, where it reduced the severity and duration of the transitional losses associated with reform in a way that did not unduly jeopardise or delay the benefits to the wider community from that reform.

One pragmatic rationale for adjustment assistance is based on the view that community support for reform is more likely to proceed if it is perceived that those who are adversely affected are treated ‘fairly’. Some people, recognising these concerns, have suggested that, in such an environment, reform needs to be secured through the provision of targeted assistance. In the Commission’s view, the provision of assistance as a means to progress politically unpalatable reforms raises serious practical problems — a topic returned to later.

Sometimes, assistance may be promoted as a means of overcoming impediments to adjustment which are caused by governments. As the Industry Commission noted in a report on impediments to regional adjustment:

A related but distinct rationale for adjustment assistance is based not on market failures, but on the existence of impediments to adjustment resulting from other government policies. For example, the need for employers to pay trainees a wage that is higher than warranted by their lack of skill and experience contributes to the under-provision of training (and retraining). Similarly, policy related ‘poverty traps’, which reduce the incentive for less skilled workers to accept employment at going wages (and tax levels), contribute to prolonged unemployment. If nothing can be done about the underlying policies impeding adjustment, new forms of assistance can be a ‘second best’ approach. (IC 1993b, p. 293)

The best solution would be to address government-induced impediments to adjustment directly, but this may not always be possible (at least, in a timely way). In such circumstances, offsetting policies may need to be considered.

Equity, adjustment assistance and compensation

In the main, arguments for additional adjustment assistance generally stem from, and reflect, different perceptions of what constitutes equitable treatment and, hence, what equity criteria should determine for assistance.

For example, the Queensland Farmers’ Federation (QFF) indicated that adjustment assistance should be provided to ‘losers’ from market-induced change:

Change is about winners and losers and I think that what is really needed is a sympathetic and a compassionate response to those who are finding the adjustment process difficult and a very strong sense of partnering. I think another good example is the pork industry that suffered very badly as a result of international market forces ... Now, I will say that the package in the end that was given to the pork industry they might not want to praise it to the roof but with applying some independence I think it was a reasonably fair package. (trans., p. 587)

This approach generally has found less favour than the view that assistance should at least be linked to government-induced adjustment pressures. For example, AFFA considered that adjustment assistance ‘should only be provided where the costs are policy-induced’ (sub. D301, p. 3).

Indeed, a case for compensating the ‘losers’ from adjustment is often associated with reforms which, whilst yielding net benefits to the economy as a whole, involve losses for some members of the community. This is especially relevant in the context of this inquiry, because some activities affected by policy changes can be regionally concentrated — for example, changes to statutory marketing arrangements (eg dairy deregulation) and reforms leading to price increases for irrigation water (see chapters 5 and 7).

The National Farmers' Federation (NFF) considered that competition payments from the Commonwealth to the States and Territories (see chapter 4) should be earmarked as adjustment assistance and paid to those affected.

Everyone talks about adjustment assistance but, as far as the NFF can ascertain, not one dollar has yet flowed to those affected by NCP. These funds have already been appropriated by the state governments to consolidated revenue. Everyone appears to recognise the need to adjust, but where is the money? (trans., p. 843)

However, the Pastoralists and Graziers' Association put a converse position:

... who are the losers? We need to define who they are. I would submit that the growers will be the winners because they will certainly need to apply proper efficient business practices to survive, and in that they are going to win. Those who can't manage in that environment are going to leave the industry. When I see people leaving farming, I always tell them the farm doesn't leave; it's only the people that leave. The farm continues to exist, and its opportunity to produce product which is going to be of benefit to the nation continues to exist. It's just going to be run by somebody else, and not necessarily always by somebody getting bigger and bigger. So the farm and the ability of that farm to produce continues to exist and improve, but we deal with the compensation side, if there is to be one, through the process of social welfare. (trans., p. 69)

In some circumstances, a case for governments to consider compensation appears to be less contentious. This could include the appropriation of private property to build a freeway or certain cases where a government's action reduces asset values — for instance, the adverse consequences for a community in southern Tasmania when a limestone quarry was forced to close because it was subsumed within a heritage listing (IC 1993b). Another case might relate to the introduction of a carbon tax to mitigate greenhouse gas emissions — this would clearly have adverse consequences for coal producing regions, such as the Hunter and Latrobe Valleys.

Another instance might be the 'overnight' deregulation of the taxi industry which could leave owners of taxi plates with a worthless asset. This could suggest a case for some form of compensation or for phased introduction of reforms. Yet, such deregulation would constitute the devaluation of an *artificial* right (eg a taxi licence quota) which has allowed the beneficiaries to extract 'economic rents' for many years. But this issue is complex because, in some cases, those rents may have been appropriated by individuals who have long since moved on, whereas the more recent entrants could stand to lose several hundreds of thousands of dollars. These circumstances are also relevant when, for instance, market milk quotas are capitalised into the value of landholdings.

Difficulties with specific approaches to adjustment assistance

The above section highlights the differing perspectives which arise when attempting to determine an equity rationale for ‘compensation’ — equity, it seems, is very much in the eye of the beholder. It also bears out a tendency for some to promote a case for ‘compensation’ rather than measures to facilitate adjustment. The provision of compensation raises many difficult practical, as well as conceptual, issues (see box 13.2).

Considering the case for specific adjustment measures beyond the ‘safety net’ raises other complex conceptual issues. This is illustrated by the following questions:

- Should adjustment assistance be delivered *ex ante* (that is, to attempt to anticipate the impacts of change) or *ex post* (that is, to address any negative outcomes with more certainty once they have been manifested)?
- Should adjustment assistance be made available for the effects of market-induced sources of change (eg declining commodity prices), policy-induced sources of change (eg legislation reviews leading to the removal of mandated farm gate prices), or both?

These questions do not arise in respect of the ‘safety net’ which encompasses a set of universally available *ex post* measures accessible by all individuals who have difficulty coping with the adverse effects of change, regardless of its source. Conversely, these questions, and others, loom large in the consideration of specific adjustment assistance measures. Special packages raise difficult equity issues by treating individuals facing adjustment pressures differently, depending on the source of the pressure. For example, should farmers who lose income as a result of changes in statutory marketing arrangements be compensated, but not farmers who lose their livelihood as a result of unfavourable global commodity prices?

A serious problem with compensation for policy-induced losses is that *all* government policies can generate winners and losers. Moreover, as there are many sources of change which can impose losses on particular groups or regions, it can be difficult to assess the contribution of different influences in determining whether, and how much compensation might be appropriate. For example, this report has found that many of the influences which are having an adverse impact on country Australia reflect forces beyond the control of governments (such as technological change). The recent introduction of NCP has provided many with an opportunity to attribute these myriad long-term sources of change to government reforms and, accordingly, to call for the provision of adjustment assistance.

Box 13.2 Issues associated with the provision of adjustment assistance

Some consider that when implementing reforms, such as NCP, insufficient attention is given to the trade-off between efficiency and equity which may arise if reforms have possibly large and regressive distributional effects. They consider that 'an attempt should be made to provide rough compensation to those considered relatively poor (eg those in the two lowest quintiles) — provided an efficient method of compensation can be found' (Argy 1998, p. 115). Argy considers that in providing rough 'compensation', beyond the welfare 'safety net', ideally five conditions should be met. These are:

- 1 the losers must be fairly easily identified, so that the benefits are not wasted on unintended 'outsiders' (eg well-off landlords, managers and shareholders);
- 2 the method of compensation needs to be transparent to ensure accountability and, if necessary, regular review;
- 3 the administration costs of the compensation process must be low relative to the total compensation amount;
- 4 the instrument used must not generate too many by-product market distortions (eg high effective marginal tax rates may seriously affect economic performance); and
- 5 the compensation policies should not simply provide passive support but should aim to facilitate labour market adjustment (ie development of the skills and characteristics required for labour market integration). (Argy 1998, p. 115)

While not free of efficiency costs, these are seen generally as small relative to the possibility that the reform may not gain acceptance without compensation. Kasper (1999) has outlined problems with the provision of compensation. These are summarised below.

- if governments compensate for policy actions should they compensate for policy inaction?;
- what is the appropriate time horizon to measure all of the costs and benefits (if possible) of a policy change — months, years?;
- if firms are compensated for profit-reducing reforms, should they also be taxed for profit-enhancing reforms?;
- should compensation apply to all parties equally or exclude affluent shareholders?;
- where should the burden of proof lie in seeking to establish whether a loss arises from a policy induced shift or from structural changes?;
- should compensation be paid if it is evident that losses were brought about with the connivance of the loss-maker?;
- if a region loses a dominant shrinking industry, is this a loss or a potential gain?;
- the economic rationale for compensation will often be replaced by political rationality;
- who is to bear the tax burden of compensation?;
- buying off reform can invite 'noisy' political resistance to reform;
- should compensation be paid for the removal of subsidies and preferment and, if so, should the 'long-suffering victims' of such measures be compensated;
- how will adjustment assistance, conditional on action by recipients, be enforced?;
- compensation imposes high dead-weight costs (eg diversion of effort into lobbying); and
- since the pursuit of handouts typically imposes high compliance costs, is it reasonable that large firms with good access to government will benefit the most?

Sources: Argy (1998) and Kasper (1999).

The QFF, for example, considered that assistance is justified even if pressures for change are only tenuously linked with government reforms. It recommended that:

In rural and regional areas where the impact of NCP reforms *is likely* to exacerbate existing decline, governments provide new initiatives designed to deliver additional assistance which *is tailored* to meet the needs of the community affected. (sub. D258, p. 5, emphasis added)

In essence, even if ‘global forces’ are swamping any NCP reforms, the QFF’s approach would be to target affected regions for assistance. Clearly, the line between measures which aim to facilitate adjustment and measures designed primarily to impede adjustment or to ‘compensate’ for change becomes quite blurred. Indeed, for most participants, no distinction was made between compensation and adjustment assistance *per se*. Hence, for many participants the need for measures to *facilitate* adjustment tended to be of secondary importance.

Governments need to be aware that the prospect of special packages can encourage lobbying for compensation by others in the community. The recent decisions to provide tariff ‘pauses’ for the motor vehicles and the textiles, clothing and footwear industries have promoted pleas for special treatment from other industry sectors. CANEGROWERS submitted that:

The uncertainty about the sugar industry also means that growers become more concerned about other aspects of microeconomic reform. The obvious example here is the abolition of the sugar tariff while maintaining the tariff in other industries. CANEGROWERS believes there is a perception of inconsistency about the reform process and application of NCP principles. (sub. 46, p. 13)

The provision of adjustment assistance above and beyond the general measures contained in the ‘safety net’ raises many difficult issues. For these reasons, assistance tends to be provided universally to individuals based on general criteria relating to a need for income support, job placement and (re)training.

Guidelines for specific adjustment assistance

In terms of this report, which has country Australia as a focus and notwithstanding the difficulties noted above, the Commission considers that there can be circumstances in which a region-specific approach to adjustment may be warranted. This may be the case where a shock occurs rapidly, is large relative to the size of a community and where opportunities for alternative employment are limited.

Whereas the capacity to adjust will be stronger in larger and more diversified communities (chapter 3), it is generally accepted that the capacity to adjust will be more limited in:

-
- some specialised country communities housing a dominant activity — for example, a town or region primarily engaged in and reliant upon the fortunes of mining (and mining-related) activity;
 - some small communities — for example, where the closure of, say, a rail depot in a small town has a major impact on its ‘critical mass’;
 - towns or regions which have been subject to a series of adverse shocks — for example, closure of a sawmill operation followed by closure of a cannery.

A large concentrated shock in a particular region could place a severe burden on the local infrastructure used for the delivery of generally available assistance — it is likely that many people will have worked in a single industry and acquired skills which are difficult to transfer. Also, any resultant decline in population may place the community at risk of descending into a self-reinforcing cycle of decline, which it *may* have been possible to alleviate with a structured adjustment package, put in place after the effects of the shock are clear. The Commonwealth Government’s Assistance to Depressed Regions Program is a case in point.

In considering when specific adjustment might be required, AFFA submitted that ‘scale’ (that is, the size of the shock relative to the absorptive capacity of the region) is important. It also saw the main function of assistance as facilitating adjustment rather than simply to ‘compensate’ for change:

... in the event that regions and industries undergo more serious dislocation as a result of NCP reforms, and existing general programmes are found to be unable to deal adequately with dislocation of this scale, AFFA believes that appropriately designed specific assistance should be used. This assistance should be of limited duration and directed specifically at addressing the dislocation — through, for example, easing the adjustment out of an industry, assisting in the reorientation of businesses to deal with the changed circumstances. This assistance could include transitional arrangements, structured in such a way so as to facilitate the speedy adoption of reforms without undue costs. (sub. D301, p. 3)

The Commission considers that assistance should not be used to seek to shelter every town from change. In some instances (eg the exhaustion of a mineral deposit in a small mining town), it may not be possible, or sensible, to try to arrest the decline — only to ease the transition.

FINDING 13.1

There may be a case for specific adjustment assistance packages where a concentrated adjustment shock occurs rapidly and is large relative to the size of a community. The decision to proceed with assistance will be influenced by the (direct and indirect) costs and benefits of an adjustment package tailored to a particular regional change relative to the costs and benefits of relying on general measures.

In proposing circumstances in which a region-specific approach to adjustment may be warranted, the Commission is adopting a position based on its consideration of equity and efficiency criteria. In coming to this position, it has been informed by the views expressed at its recent workshop *on Structural Adjustment, Exploring the Policy Issues* (PC 1999g). A brief summary of the views of ‘experts’ in this field is presented in table 13.1.

Table 13.1 Assistance over and above the tax/transfer system?

Views of speakers and discussants at the Commission’s workshop on adjustment

<i>Participant</i>	<i>Comment</i>
Prof. Wolfgang Kasper, University of NSW	Opposed to special compensation because it is not possible to have the knowledge to measure transient gains and losses in a dynamic economy.
Prof. Cliff Walsh, SA Centre for Economic Studies	No compensation, other than in exceptional circumstances. With the tax/transfer system in place it is not obvious that there should be additional compensation for losers from policy changes — except good regional, education and training programs make coping with change easier.
Malcolm Gray, Analytic Outcomes, Pty Ltd	Community may wish to provide compensation for policy changes where the impact is large and difficult to anticipate; the affected group is poorly placed to deal with the consequences; and those consequences can be clearly associated with the reform.
Fred Argy, Australian National University	Compensation may be warranted where reform has a disproportionately large impact on a particular region which is already disadvantaged; when those hurt are relatively poor; and the reform is a breach with longstanding tradition. It does not follow that all reforms with distributional impacts require compensation.
Elizabeth Savage, University of Sydney	A limited role for compensation. If adjustment and distributional consequences are addressed at the policy design stage, there will be little need to subsequently address adverse welfare impacts.
Prof. Peter Forsyth, Monash University	From an efficiency perspective, there is no reason to compensate as it detracts from the gains from change, but there may be a case for adjustment assistance. From an efficiency and equity standpoint, compensation should be paid if it improves overall economic welfare.
Prof. Glenn Withers, Australian National University	Governments should not reach for compensation per se but look to adjustment assistance. Not convinced of the need for compensation owing to ‘rent seeking’ and other adverse incentives.
Dr Andrew Stoeckel, Centre for International Economics	Impossible to calculate ‘proper’ compensation. Adjustment burdens can be eased through education, retraining and by improving labour market flexibility.
Prof. Peter Saunders, Social Policy Research Centre, University of NSW	Providing compensation for structural reforms is difficult because of problems identifying losers and the basis on which to calculate their loss. If equity as well as efficiency can be demonstrated convincingly, resistance to reform will be reduced.
General discussion (including speakers, discussants and a range of invitees)	There was some agreement among participants that there is no single rule that can be used to determine when to compensate. But many participants suggested that there would be circumstances when providing assistance to facilitate adjustment would be sensible.

Source: PC (1999g).

The table indicates that there is unlikely to be a consensus of opinion about whether adjustment assistance should be provided for the policy-induced consequences of reform, nor is there, as yet, any accepted methodological basis for decision rules on this issue.

The Commission is undertaking further research on the delivery of effective adjustment assistance. This research will further examine, among other issues, the case for selective adjustment assistance, the role of different transitional arrangements and the packaging of reforms.

13.4 Possible forms of specific adjustment assistance

Options for the form of any specific adjustment assistance include:

- tailoring a regional assistance package from the existing menu of Commonwealth, State, Territory and local government measures;
- phased implementation of reforms; and
- specific approaches, including compensation measures.

Tailoring existing mechanisms

A region-specific assistance package could be developed by changing the mix of, or fine tuning, existing Commonwealth and State assistance programs. This may be appropriate for regional communities with special characteristics which can exacerbate adjustment costs. For example, the average age of employees in the rail industry is higher than for other industries. This raises particular issues about the re-employment prospects of some of these employees in the face of reforms to that industry (see box 13.3).

Another example might be a community with a large number of people for whom English is not their native language. This could require a stronger emphasis on English language training as part of an overall adjustment strategy. For example, in February 1992, Nissan announced that it would cease assembly of vehicles in Australia, and subsequently closed its Clayton (Victoria) plant resulting in 2500 redundancies. In cooperation with Nissan and the Federation of Vehicle Industry Unions, through an Enterprise-Based Committee, the (then) Commonwealth Employment Service established an assistance centre at the plant. This centre also coordinated the efforts of government and not-for-profit support agencies to assist those about to be retrenched. Information was produced in several languages suited to the major nationalities at the plant (IC 1997e, pp. 363–75).

Box 13.3 **Labour adjustment in railways**

Railway employees tend to be older males, less mobile than workers in other industries and members of a trade union. Reductions in the size of the labour force have been an ongoing feature of the adjustment in railways. A Bureau of Transport and Communications Economics study (1990) of redeployed and redundant railway workers found that:

- of those workers who accepted a redundancy package, and did not retire from the workforce, 56 per cent found alternative employment;
- 44 per cent remained unemployed after redundancy and two-thirds of these for at least 13 months. Lowly skilled employees accounted for over 56 per cent of the unemployed; and
- 89 per cent of the unemployed workers had not applied for available government retraining schemes.

Source: PC (1999e), appendix H.

Another example of re-packaging existing Commonwealth and State adjustment mechanisms was reported by the Murray Regional Development Board:

... there are subregional or regional-type programs, like West 2000, like Kick Start Sunraysia. So there are regionally-specific programs and the Board acknowledges those and it says that that is the way of the future, that is regionally focused adjustment programs. Take the best out of the generics but then shape something to suit a particular region. That's our approach. (trans., p. 333)

Phased implementation

Where feasible, phasing reforms can ease adjustment pressures by spreading the effects over a longer period. This could involve deferring the introduction of reforms and/or slowing their implementation. This type of approach can be important for reforms which involve the withdrawal of a major employer — such as the closure of a Telstra depot. In these cases, the regional ‘multiplier effect’ from the sudden direct loss of employment could threaten the ‘critical mass’ of the town.

The Commission (and its predecessor organisations) have frequently advocated phased implementation of reform as a means of smoothing the adjustment burden — this is the usual approach adopted for reductions in barrier assistance such as tariffs and quotas. Similarly, in a recent report on private health insurance the Industry Commission recommended changes to community rating based on age of entry.

However, it proposed that the changes only apply to future entrants and that there be a grace period to allow people to join under the old rules.

Of course, slowing the pace of reform, whilst relatively simple in principle, is not costless. By definition, if reform is beneficial, delaying its implementation can reduce the benefits of reform to others (eg users, consumers and taxpayers). Phasing also can carry with it the risk of 'backsliding' where, at the end of the phasing period, further assistance or an extension of the phasing period is sought, typically based on the alleged emergence of new, but unforeseen, circumstances.

Case-specific measures

It is difficult to nominate specific adjustment measures without an appreciation of the individual circumstances of each case. However, *where warranted*, some examples (relevant to the reform of statutory marketing authorities (SMA)) could include:

- assisting the transformation from a statutory marketing arrangement to a grower cooperative through an Australian Competition and Consumer Commission authorisation for the temporary maintenance of potentially anti-competitive practices (see chapter 7);
- facilitating the establishment of a cooperative without statutory powers; and
- providing funds to assist producers to develop new marketing methods, alternative sources of finance and better risk management strategies.

In some circumstances, alternative measures may be warranted. For instance, in an inquiry into statutory marketing arrangements, the IC (1991) reported that, in some cases, attempts to deregulate rural activities had been stymied by disputes over the ownership of assets held by, or invested in, a SMA. In this situation, to facilitate transition to a deregulated environment and to ease the adjustment burden, governments may opt to forgo (wholly or in part) their claims over such assets.

In some cases (eg reform of SMAs or deregulation of taxi plate licences), consideration of compensation can arise where licences and quotas (and also land values where quotas have been capitalised) are devalued by deregulation. Two approaches could be adopted. First, immediate compensation for the reduced value of the asset (conditional on reform proceeding) or, second, gradual and predictable increases in quota (or price deregulation) over time so that values fall gradually. The preferred approach will depend, in part, on whether current or former owners of the asset appropriated the benefits.

Another approach might be to relax zoning regulations that prohibit the subdivision of lands. This can enable farmers to leave the industry in which they are unprofitable or to ease their cash flow problems by selling part of their property.

Box 13.4 NSW Forest Industry Structural Adjustment Package (FISAP)

FISAP offered retrenched workers 'Relocation and Training' (R&T), or if circumstances prevented the worker moving, a 'Special Redundancy Payment' (SRP). The R&T package comprised \$10 000 towards relocation costs, up to \$10 000 deposit on a new house if the worker moved to take up a new job and \$5000 towards training. The majority of recipients were not inclined to relocate and opted for the SRP.

To further promote the advantages of training, programs have been introduced for all workers (eg job seeking, writing and computing skills; farm chemical users certificate; and plant operation). Participants are paid a wage during training (around 8 weeks). Companies employing retrenched workers can claim a wage subsidy of up to \$10 000.

Since December 1995, 258 retrenched workers have been approved for the SRP and 222 workers were approved for the R&T package. TRAIN Group Training Co Ltd has maintained records on 193 recipients of this latter group. The following indicates outcomes.

Region	Retrenched	Relocated
Hunter	58	18
South-east NSW	44	14
North coast	41	8
New England	31	17
Mid-north coast	19	9
TOTAL	193 (100%)	66 (34%)

Sixty eight workers (35 per cent) found employment back in the timber industry. Thirty retrenched workers have gained employment with the National Parks and Wildlife Service (NPWS) as Field Officers. Other employment outcomes include: farming (6 workers), energy (6), building and construction (6), transport (5), councils (4), mining (4), automotive (4), full-time study (4), horse industry (2), retail/wholesale (2) and individuals employed in hotel management, meat, baking, security, electrical trades, accountancy, telecommunications, cotton, carpentry and upholstery.

There are many casual workers awaiting further NPWS positions — as part of the NSW Government's Forest Agreement (October 1998) there may be another 20 field officer positions for retrenched timber workers.

TRAIN note that many who took the redundancy package have been able to find jobs back in the timber industry. However, the Commission considers that it is not possible, on the data provided, to compare outcomes across the two groups. Thus, it is difficult to determine the success, or otherwise of this component of the FISAP.

Source: Bowden (1999).

Governments have also invoked far more wide-sweeping adjustment packages. For example, the New South Wales Government implemented a Forest Industry Structural Adjustment Package comprising three elements — Industry Development Assistance, Business Exit Assistance, and Worker Assistance. Box 13.4 reports on the worker assistance element.

The arguments in support of specific adjustment assistance indicate that, if warranted, it should be provided on a *case-by-case basis*. This means that individual assessments would be required and that the additional assistance provided should address the particular circumstance and be delivered at a state level. Factors which could have a bearing on the form and magnitude of assistance include: the scale of the shock relative to the size of the region — that is, its ability to adjust; whether or not redundancy payments have been made available to employees; the job readiness of those adversely affected (language and other skills); employment prospects within the region; the mix of existing adjustment mechanisms; and so on.

13.5 Managing reform implementation

All of the approaches identified above indicate the need for effective management of reform. Better management can range from more robust, transparent and inclusive reform processes (see chapter 11) through to implementation that takes account of potential adjustment difficulties.

The need for governments to manage adjustment better was stressed by some participants. For example, the Chamber of Commerce and Industry of Western Australia noted:

... it may be more appropriate for governments to respond by implementing programs which smooth the process of structural adjustment arising from the implementation of competitive reforms, a consideration which has perhaps received too little attention in the implementation of competition policy to date, whether in rural or metropolitan Australia. (sub. 183, p. 15)

One example of pragmatic management of reform relates to the CoAG water reforms (see chapter 5). New investment in water infrastructure is subject to certain criteria, such as ensuring that it generates a rate of return on investment, but these conditions do not extend to existing infrastructure. Some jurisdictions have taken the view that old infrastructure is a ‘sunk’ asset which should not be required to make a rate of return on capital (although contributions for maintenance and augmentation are required). This view may be valid in many instances, but in others it is not true to suggest that the sunk asset has no value. However, this approach is

simple and may relieve many existing users from a potentially significant adjustment burden. The information and implementation problems associated with a more ‘pure’ approach also may have been significant. This implementation process can constitute pragmatic management of a reform — allow bygones to be bygones, but new investments will need to be based on sound criteria.

While in this report the Commission has not endeavoured to set out a template for when and what type of adjustment assistance should be provided, it considers that the following approach to reform should be followed.

1. **Consultative processes:** At the outset, it is important to ensure that NCP processes are working effectively. That is, where reform is under consideration (whether by way of legislation review or through a CoAG-related infrastructure review process), those charged with implementing reforms and those potentially affected by reforms must be in a position to provide an informed input into the review process. Due consideration should be given to both economic and non-economic criteria in the decision-making process. Genuine and effective consultation and community involvement should feature strongly in these early stages — chapter 11 contains recommendations which aim to achieve this end.
2. **Co-ordinated approach to adjustment:** It is important that all relevant governments are involved in the implementation process. This is particularly important when structuring adjustment assistance packages which require the integration of existing measures from several tiers of government. It is also important to ensure policy co-ordination, so that actions by one government do not work against the objectives of another. Where necessary, employers and local community groups should also be involved. There are instances in the past of co-operative approaches developed jointly between employers and government agencies — for example, financial counselling could be funded by employers. Implementation should be conducted sensitively with a view to reducing adverse impacts.
3. **Monitoring of outcomes:** Effective follow-up of the outcomes of adjustment packages is vital. Where possible, outcomes (longitudinal studies if possible) should be assessed against control groups. Effective monitoring is important to ensure that lessons are learnt from previous experiences with adjustment assistance. This process will help to identify the most effective (and ineffective) forms of assistance across the different jurisdictions and provide valuable case studies for future adjustment programs. For example, the Industry Commission, in exploring adjustment issues in relation to the textiles, clothing and footwear (TCF) industries, found that:

The experience of the previous TCF-specific labour adjustment program shows that a sector-specific approach does not necessarily result in better outcomes for participants than the general approach. While participation rates for the TCF Labour Adjustment Program were relatively good, outcomes under this program were not markedly better than those under generally available labour market programs in operation at the same time. (IC 1997f, vol. 1, p. 165)

The need for an approach which recognises the importance of effectively managing the reform process from inception to implementation was noted by Hon. Rob Borbidge, MLA (Queensland):

Impacts of change need to be determined, and taken much more into account, *before* implementation, *during* implementation, and *after* implementation. (sub. D279, p. 11)

Likewise, the QFF considered that management could be improved. It recommended that:

The Commonwealth Government nominate a department which will be required to ensure that implementation of reforms and policies affecting rural communities is managed in a way which achieves whole of government integration and which minimises the adverse effects on individuals. (sub. D258, p. 7)

The QFF's approach is in keeping with the principle of improved management of reforms. However, given that most of the NCP reform agenda occurs at the level of State, Territory and local governments, placing this role in the hands of a Commonwealth Department may be of limited value. A co-ordinated approach should reflect the role of the reforming government, but could also include co-ordination between relevant spheres of government (Commonwealth, State, Territory and local).

FINDING 13.2

There is significant scope to improve the management of the reform process in country Australia through:

- *genuine and effective community consultation;*
- *governments co-ordinating their responses to adjustment difficulties; and*
- *monitoring of outcomes.*

Who pays?

In the draft report, the Commission noted that 'the States have been provided with significant funding for the implementation of NCP. Accordingly, it seems reasonable that they should play a role in funding any special adjustment assistance packages'. This view was supported by the NFF. AFFA (sub. D301) also considered

that applying part of the competition payments to situations where adjustment assistance is deemed necessary was worth considering.

However, this view was challenged by the governments of South Australia and Tasmania. The South Australian Government said:

The suggestion that the ‘buckets of money’ given to the States by the Commonwealth as part of the NCP package should be used by the States to fund transitional cost arrangements takes no account whatsoever of the nature of the payments ... They were intended to represent a sharing of the benefits of increased government revenue derived from productivity improvements, rather than as funding for implementation. (sub. D298, p. 14)

The Tasmanian Government said that:

... the NCP payments were designed to compensate the States for the fact that the States are required to implement reforms that impact much more favourably on the Commonwealth’s tax base than the States. The NCP payments do not compensate for the costs that are incurred in implementing the reforms, including adjustment costs, and it is for this reason also inappropriate that the States be required to fund *any* adjustment assistance packages. (sub. D294, p. 3, emphasis added)

The Commission accepts that, apart from sharing the benefits of reform, part of the rationale for competition payments appears to be a recognition that the Commonwealth will benefit from increased revenues from some NCP reforms. It accepts that, under the agreement, there is no stated link between NCP competition payments and provision of adjustment assistance.

However, it would be wrong to presume that State and Territory governments are losers from NCP and therefore have no capacity to share in meeting the costs of adjustment packages for their constituents. Submissions from State and Territory governments have supported NCP. This is based on their perceptions of net benefits to flow to Australians as a whole, and localised benefits from the more efficient use of resources (which all governments acknowledge are scarce) — put simply, this translates to less wastage and greater resources available for infrastructure and social services. Indeed, the South Australian Government has acknowledged that ‘the net gains from NCP are likely to be positive for South Australia as a whole’. (sub. D298, p. 15)

The Commission does not consider that responsibility for adjustment assistance should be shifted to the Commonwealth Government. It considers that States and Territories *have a role to play* in funding adjustment assistance packages over and above the (Commonwealth funded) ‘safety net’. This does not *preclude* further Commonwealth involvement.

The Tasmanian Government made the additional point that:

... adverse effects in one jurisdiction can be consequential on actions taken in other jurisdictions, a point which provides further justification for adjustment assistance being funded centrally. (sub. D291, p. 6)

Where one State's action has impacts on other jurisdictions (for example, Victoria's decision to deregulate its dairy industry), there may be a case for a more co-ordinated approach to reform and adjustment. Where reforms flow from a national review, there may, where an adjustment package is deemed warranted, be scope for a multi-jurisdictional approach.

13.6 Concluding comments

Much of country Australia is coping with changing circumstances in a positive manner (see chapter 3). Many firms and communities have been able to exploit the available opportunities to develop new markets (eg horticulture, wine grape growing and tourism) and minimise the costs associated with structural change. In those regions, the general 'safety net' measures will probably be sufficient to address the difficulties faced by individuals disadvantaged by change.

In some parts of country Australia, however, the story is different. Some small communities with a narrow economic base are struggling to survive in the face of long-term trends in factors beyond the control of governments, such as declining prices for agricultural products, increasing productivity and lifestyle changes which have attracted people to the cities and larger towns. NCP reforms, over time, will help some of the small, struggling communities (eg by lowering the costs of important inputs to production). But NCP changes will add to the adjustment pressures in other small communities. Although such changes may be relatively minor compared with the effects of the longer-term changes referred to above, for some small communities struggling to survive, NCP changes could be tantamount to 'the straw that breaks the camel's back'.

For some communities adversely affected by change, it is possibly too late for government to consider region-specific adjustment assistance. For example, much of the adjustment to change in some small communities has already occurred where reforms were well under way prior to NCP (eg the closure of rail and electricity depots). In some communities, though, there remains a legacy of people disadvantaged by change.

Measures to improve occupational and locational mobility of unemployed workers, or measures to reduce the transaction costs of changing locations, could expedite the decline of some communities.

In the Commission's view, it is important to recognise that adjustment assistance should focus on helping *individuals* to meet a changing environment. It is not about stopping change or maintaining all existing communities.

Change, from whatever source, has always resulted, and will continue to result, in some country communities declining and some growing. For example, the former town of Newnes in the Wollemi National Park was a major industrial site for shale oil operations and housed around 2000 people. Today, the site is home only to weekend bushwalkers. It is neither feasible, nor sensible, to halt such change.

If the objective is to hold resources in particular communities, this might require more directive measures — such as providing special assistance to particular firms to establish job creating ventures, policies such as decentralisation incentives (eg payroll tax exemptions), large infrastructure developments (eg dams), and/or prescriptive policies (eg banning fly-in, fly-out operations). These measures may have major resource implications and carry the risk of significant costs and unintended consequences.

The Commission has not sought to develop a template to determine when, and what type of, adjustment assistance should be adopted in particular circumstances. This is because each NCP (or other) reform measure is different, is likely to have widely variable impacts in terms of severity and is likely to have widely differing regional consequences (in some cases dispersed, in others concentrated). Added to this are the complexities associated with singling out the effects of NCP reforms from other sources of change.

However, the Commission considers that **some general principles should be adhered to in its provision**. Additional adjustment measures should:

- facilitate the achievement of desired outcomes, rather than replace one form of privilege for certain groups with another;
- target individuals for whom adjustment pressures are most acute and who are unlikely to be able to adjust without assistance — industry-wide measures are typically blunt, ineffective and costly;
- be limited in time and expenditure — the objective of adjustment assistance is to assist a transition to an improved situation, not to maintain the *status quo*;
- be transparent, simple to understand and relatively inexpensive to administer; and
- be consistent with international trade obligations.

Where governments decide that specific adjustment assistance is warranted to address any large, regionally concentrated costs, such assistance should:

- facilitate, rather than hinder, the necessary change;*
- be targeted to those groups where adjustment pressures are most acutely felt;*
- be transparent, simple to administer and of limited duration; and*
- be compatible with general ‘safety net’ arrangements.*

A Conduct of the inquiry

A.1 Introduction

The Commission received a total of 303 submissions during the inquiry — 214 were received prior to the release of the draft report in May 1999 and a further 89 following its release. All submissions are listed in section A.2. Those with the prefix ‘D’ were received following the draft report. In addition, those who provided comment on the draft report at public hearings are shown in section A.3.

The Commission also held extensive informal discussions with organisations, companies and individuals to gain background information and an understanding of the issues affecting country Australia. Informal discussions with groups of interested parties have been held in 75 mainly rural and remote communities throughout Australia. The regions visited by the Commission are presented in section A.4. Section A.5 lists those organisations which participated in the regional discussions, and also a modelling workshop held in Canberra.

A.2 List of submissions

<i>Participant</i>	<i>Sub. No</i>
Adams, Dick (MP)	D255
Allison, K W and J D	42
Argent, Dr N and Rolley, Dr F	68
Association of Rural Water Authorities	82/D296
Atherton Chamber of Commerce	25
Auchterlonie, D J	55
Australian Beef Association	129
Australian Capital Regional Leaders' Forum	192
Australian Catholic Social Welfare Commission	160/D292
Australian Chamber of Commerce and Industry	195
Australian Chicken Growers' Council Ltd	166
Australian Conservation Foundation	34
Australian Doctors' Fund	105
Australian Gas Association	38
Australian Grain Exporters Association	112
Australian Justice For All	102
Balanced State Development Working Group	205, 210, D273, D291
Bangerang Farm Pty Ltd	115
Barcaldine Shire Council	D270
Barkly Holding Pty Ltd	D233
Bass Coast Shire Council	88
Baxter and Co Pty Ltd	4
Bendigo Trust	D234
Berrigan Shire Council	D248
Blackall Shire Council	D269
Borbidge, Hon Rob – MLA (Leader of the Opposition (Qld))	D279
Bowmont Park	131
BP Australia	204
Braddon Business Centre Limited	113
Broken Hill Rural Lands Protection Board	120
Bryce, E	154
Buloke Shire Council	66
Burke and Baker	91/D274
Cabonne Council	56
Caldwell, R	214/D300
Canegrowers	46/D285
Canegrowers Burdekin	30
Caneland Pharmacy	9
CAPELEC – Rockhampton	79
Capricornia Training Company Ltd	10
Carnarvon Growers' Association Inc.	36
Carrathool Shire Council	D223
Cattle Council of Australia	95
Cattlemen's Union of Australia Inc.	89
Central Districts Council of the Queensland Dairyfarmers Organisation and the Board of the Port Curtis Milk Suppliers Co-operative Association	93

<i>Participant</i>	<i>Sub. No</i>
Chamber of Commerce and Industry of Western Australia	183/189
Chamber of Minerals and Energy of Western Australia Inc.	29
Chinchilla Chamber of Commerce	27
Circular Head Council	24
Citizens of Affordable Water	14/D216
City of Greater Bendigo	D231
Civil Contractors Federation (South Australian and Queensland branches)	206
Clout, E T	163
Cole, J R and C P	153
Coles Supermarkets Australia Pty Ltd	97/D221
Colly Cotton Group of Companies	107/D218
Concerned Farmers Group of Gympie Queensland	208
Cooma-Monaro Shire Council	48
Cooney, L	143
Cootamundra Shire Council	6
Council for the Shire of Murray	71
Council of the City of Grafton	104
Council of Small Business Organisations of Australia (COSBOA)	D275
Council of the Municipality of Kiama	172
Council of the Shire of Eacham	51
Country Women's Association of N.S.W.	D251
Crestfield Orchards	108
Crowther, J	D267
Davies, Susan (MLA)	87
Davis, M J	37
Department of Agriculture, Fisheries and Forestry – Australia (Commonwealth)	200/D301
Department of Foreign Affairs and Trade (Commonwealth)	165
Department of Transport and Regional Services (Commonwealth)	191/207
Devonport City Council	44
District Council of Grant	59
Dorset Council	92
Douglas, J	2
Downes, G A and D H	180
Drouin Chamber of Commerce and Industry Inc.	149
East, J S and J A	152
Epps, R	D239
Eyre Regional Development Board	20
Gash, Joanna (MP)	111
Glenelg Shire	D253
Glenridge Park	140
Gloucester Shire Council	212
Gold Coast City Council	3
Goldfields-Esperance Development Commission	D229/D290
Goodchild, W E	85
Goodman Fielder Ltd	147
Gordonvale Chamber of Commerce	126

<i>Participant</i>	<i>Sub. No</i>
Goulburn-Murray Water	52/D241
Grains Council of Australia	39
Grampians Region Water Authority	83
Great Southern Energy	67/D293
Greater Taree City Council	203
Gwydir Valley Irrigators Association Inc.	114
Harden Shire Council	7
Harris, K	151
Henry, S	148
Hillsborough Limousins	188
Horan, Mike (MLA)	15
Hughes, A and R	D263/D286
Hunter Economic Development Corporation	D219/D237
Hydro-Electric Corporation	D261
Ingle, B F H	74
Joe White Maltings Limited	19
Jones, B	D238
Kane, V and N	150
Katherine Town Council	185
Kelly, De-Anne (MP)	47
Kenneally, D	209
King, L	119
King, N	117
Kyogle Council	D257
La Trobe Shire Council	75/D265
Lamond, M	179
Langford, R	142
Launceston City Council	D244
Leeton Shire Council	169
Linger, R M	100/D240/D259
Lloyd, D	D264
Local Government and Shires Associations of New South Wales	197
Local Government Association of Queensland Inc.	177
Local Government Association of South Australia	D224/D287
Mackay Electricity Corporation Limited	28
Mackay, D	181
Mackay, Hinterland and Whitsunday Combined Local Authorities Association Inc.	173
MacPhillamy, P	214
Mallee Catchment Management Authority	60
Mallee Family Care	17
Manilla Shire Council	86
McClymont, A	D266
McDonald, D J and H M	73
McGready, A M	194
Merriwa Shire Council	77
MIA Council of Horticultural Associations Inc.	D242
Mildura Rural City Council	65

<i>Participant</i>	<i>Sub. No</i>
Minerals Council of Australia	D220
Motor Trades Association of Australia	D256
Mount Isa City Council	54/201
Municipal Association of Victoria	171/D276
Murray Irrigation Limited	170/D246/D288
Murray Regional Development Board and Riverina Regional Development Board	109/D249
Murray Valley Voice	199
Murray Valley Winegrape Industry Development Committee	21
Murraylands Regional Development Board	D277
Murrindindi Shire Council	5
Murrumbidgee Irrigation Limited	125/D272
Murrumbidgee River Management Board	124
Murrumbidgee Valley Water User's Association	D247
Narrandera Shire Council	196
National Association of Retail Grocers of Australia Pty Limited	8/139
National Competition Council	178
National Farmers' Federation	144/D297
National Institute of Accountants	99
National Party of Australia Women's Federal Council	130
National Rural Health Alliance	D289
North & North West Pharmacists Association	D236
Northern Territory Department of Local Government	D299
Northern Territory Government	128/D303
Northern Territory University	176
New South Wales Dairy Farmers' Association Ltd	164
New South Wales Government	D283
New South Wales Grains Board	61
New South Wales Irrigators' Council	211/D280
New South Wales Minerals Council	62
Pastoralists' Association of West Darling	121
Pastoralists' and Graziers' Association of Western Australia Inc.	72/D226
Perks, D	141
Pharmacy Guild of Australia	190
Pine Rivers Shire Council	174
Post Office Agents Association Limited - Queensland Branch	16
Post Office Agents Association Limited - Tasmania	76
Poultry Farmers Association of Western Australia Inc	158
Pritchard, B	184
Public Interest Advocacy Centre	127
Public Sector Research Centre, University of New South Wales	136
Queensland Chamber of Commerce and Industry	D225
Queensland Chicken Growers Association Inc.	94
Queensland Dairyfarmers Organisation - Eungella Branch	11
Queensland Dairyfarmers' Organisation	164
Queensland Farmers' Federation	90/D258
Queensland Government	202/D302

<i>Participant</i>	<i>Sub. No</i>
Queensland Produce, Seed and Grain Merchants' Association Incorporated	106
Queensland Tobacco Marketing Co-operative Association Limited	186
Quiggin, Professor J	12/D215
Raison, P G and M M	161
Reef Pilots Association Inc.	13
Regional Development Council of Western Australia	33/D262
Regional Women's Alliance Inc.	D268
Resource Consulting Services	101
Ricegrowers' Association of Australia	167
Riverina Eastern Regional Organisation of Councils	146
Riverina Regional Development Board	109/D249
Saleeba & Associates	D228
Sandhurst Trustees Ltd	D235
Scevola, S	187
Shire of Dandaragan	50
Shire of Jerramungup	1/D222
Shire of Yalgoo	98
Shire of Yarra Ranges	182
Shire of York	26
Shoalhaven City Council	162
Silver City Pastoral and Agricultural Association Inc.	35
Small Business Advisory Council of South Australia	122
Snowy-Monaro Business Enterprise Centre Inc.	23
Sorell Council	84
Sorensen, Assoc. Prof. T (on behalf of Several Members of the Rural Social Science Network, University of New England)	58
South Australian Dairyfarmers' Association, South East Branch	132
South Australian Government	156/D298
South Burdekin Water Board	168
South Gippsland Shire Council	80
South West Development Commission	31
South West Irrigation	81
Southern Grampians Shire Council	193
Southern Mallee District Council	D243
Southern Regional Women in Dairying Group	53
Southern Riverina Irrigation Districts' Council	175/D250/D295
Steinwall, R	159
Stribling, S	103/135
Surf Coast Shire	123
Tamworth City Council	57
Tasmania's West North West Councils	45
Tasmanian Commercial Egg Producers Association	63
Tasmanian Government	198/D294
Tasmanian Independent Wholesalers	D254
Tasmanian Rural Women's Advisory Group	D260/D281
Technology Group Pty Limited	D284
Telstra Corporation	110/137/D278

<i>Participant</i>	<i>Sub. No</i>
Toowoomba and Golden West Regional Tourist Association Limited	49/D271
Toowoomba City Council	D252
Townsville City Council	134
Towong Shire Council	D230
Treasury Department Western Australia	D282
Tumut Shire Council	43
Tweed Shire Council	40
Ulmarra Shire Council	145
United Dairyfarmers of Victoria	78
United Energy	D217
Victorian Farmers Federation - Southern Mallee District Council	70
Victorian Water Industry Association Inc.	69
Victorian Wine Grape Growers Council Incorporated	22
Visitor's Information Centre Bendigo	D232
W K Hayes and Son	155
Wagga Wagga Dairy Farmers	96
Walmsley, Prof. J	116
Watering Australia Foundation – WA	D245
Webb, M	64
Western Australian Farmers' Federation Inc.	138
Western Australian Municipal Association	32
Western Australian Water Users Coalition	157
Wheatbelt Area Consultative Committee Inc.	41
Whyalla Economic Development Board Inc.	18
Winzer, M and C	118
Woolworths Limited	213

A.3 Participants at public hearings

<i>Date</i>	<i>Participant</i>
Adelaide 22 June 1999	Local Government Association of South Australia South Australian Farmers' Federation
Perth 23 June 1999	Goldfields Esperance Development Commission Shire of Jerramungup The Pastoralists' and Graziers' Association Wheatbelt Development Committee
Tamworth 29 June 1999	Colly Cotton Ltd Country Women's Association Hunter Economic Development Corporation New South Wales Farmer's Association New South Wales Farmers Chicken Meat Group North and North-West Pharmacists Association Tamworth City Council University of New England (Roger Epps) University of New England (Tony Sorenson)
Albury 1 July 1999	Ernie Bridge, MLA (WA) and Watering Australia Foundation Murray Regional Development Broad Towong Shire Council
Launceston 5 July 1999	Circular Head Council Dick Adams, MP Launceston City Council National Association of Retail Grocers of Australia and Tasmanian Independent Wholesalers Rod Linger Tasmanian Women's Advisory Group
Bendigo 7 July 1999	Anne Hughes and Robin Hughes Bendigo Trust City of Greater Bendigo Doug Lloyd Glenelg Shire Goulburn-Murray Water Greg McRae Fine Furniture Latrobe Shire Council Visitor's Information Centre, Bendigo Sandhurst Trustees

<i>Date</i>	<i>Participant</i>
Toowoomba 12 July 1999	Boonah Shire Council Business Success Group Canegrowers Civil Contractors Federation (Queensland Branch) Hon Lawrence Springborg MLA Hon Russell Cooper MLA Mike Horan, MLA, (Qld) Queensland Farmers' Federation South-West Regional Council of the Queensland Chamber of Commerce and Industry Rural Policy Institute Toowoomba and Golden West Regional Tourist Authority Toowoomba City Council
Townsville 14 July 1999	Bob Katter MP (Qld) Burdekin Shire Council Ernie Bridge, MLA (WA) and Watering Australia Foundation Townsville City Council
Canberra 20-21 July 1999	Australian Gas Association Australian Pipeline Industry Association Balanced State Development Working Group Brian Button Council of Small Business Organisations of Australia Grains Council of Australia Hon Rob Borbidge MLA (Qld) Junee Shire Council Macquarie Food and Fibre Murrumbidgee Irrigation Limited National Farmers' Federation New South Wales Irrigators' Council One Nation Party Robert Caldwell

A.4 Locations at which meetings were held

<i>State/Territory</i>	<i>Location</i>	<i>State/Territory</i>	<i>Location</i>
New South Wales	Armidale		Emerald
	Albury		Longreach
	Bega		Mackay
	Broken Hill		Mount Isa
	Cooma		Rockhampton
	Cootamundra		Roma
	Dubbo		Toowoomba
	Goulburn		Townsville
	Griffith		
	Leeton	Western Australia	Albany
	Lismore		Bunbury
	Maitland		Kalgoorlie
	Moree		Katanning
	Narromine		Kununurra
	Newcastle		Mandurah
	Nowra		Narrogin
	Orange		Northam
	Parkes		Perth
	Port Macquarie		Port Hedland
	Sydney		
	Tamworth	South Australia	Adelaide
	Wagga Wagga		Mt Gambier
	West Wyalong		Port Augusta
	Yass		Port Lincoln
			Whyalla
Victoria	Ballarat	Tasmania	Burnie
	Bendigo		Devonport
	Colac		Hadspen
	Hamilton		Hobart
	Horsham		Launceston
	Korumburra		Oatlands
	Melbourne		Scottsdale
	Mildura		Sorell
	Portland		
	Shepparton	ACT	Canberra
	Traralgon		
	Warrnambool	Northern Territory	Darwin
	Wycheproof		Katherine
Queensland	Atherton		Nganmarriyanga
	Brisbane		(Palumpa Station)
	Cairns		

A.5 Consultations and regional discussions

Regional discussions

The following section details participants who attended the Commission's informal regional discussions. It lists only *organisations* represented at each of the meetings. The Commission extends its gratitude to all of the other participants who appeared in a private capacity (eg interested individuals, pharmacists, newsagents, store owners, farmers) at these meetings.

New South Wales

Armidale

- Armidale City Council
- Department of State and Regional Development
- Dumaresq Shire Council
- Financial Management Research Centre
- Guyra Shire Council
- New England/North West Regional Development Board
- New South Wales Farmers' Federation
- Premier's Department
- Universita Dorthmund (Germany)
- University of New England
- Uralla Shire Council

Albury-Wodonga

- Albury City Council
- Cosgrove and Eastoe Valuers
- Department of State Development (NSW)
- Investment Albury Wodonga
- Office of Rural Affairs, Dept of Natural Resources (Vic)
- Westpac Banking Corporation
- Wodonga City Council
- Wodonga TAFE

Bega

- Bega Chamber of Commerce and Industry

- Bega Valley Shire Council
- Cirtec
- Cobargo Cooperative
- Far South Coast Catchment Management Authority
- Great Southern Energy
- Harris Diashowa
- New South Wales Farmers' Federation
- Office of Senator Margaret Reid
- Southern Farm Supplies

Broken Hill

- Australian Inland Energy
- Broken Hill Chamber of Commerce
- Broken Hill City Council
- Broken Hill Enterprise Development Centre
- Central Darling Shire Council
- Far West Area Health
- Far Western Regional Development Board
- New South Wales Agriculture
- Outback Regional Development Organisation

Cooma

- Bombala Shire Council
- Cooma Business Enterprise Centre
- Cooma Shire Council
- Cooma Unlimited
- Great Southern Energy
- New South Wales Farmers' Association

Cooma - continued

- Snowy Mountains Hydro Electricity Authority
- Snowy River Council

Cootamundra

- Cootamundra Business and Retail Committee
- Cootamundra Development Corporation/BEC
- Cootamundra Shire Council
- Harden Shire Council
- Junee Shire Council
- New South Wales Farmers' Association
- RRDB
- Tumut Shire Council
- Young Shire Council

Dubbo

- Advance Energy
- ANZ Banking Corporation
- Barwon Darling Alliance
- Coonabarabran Shire Council
- Dubbo Chamber of Commerce
- Dubbo City Development Corporation
- Dubbo District Council
- Fletcher TNT Exports
- Macquarie River Food and Fibre
- Macquarie Rural Advisory Service Inc.
- Mudgee BEC
- National Meat Association
- Office of Tony Lawler MP
- Orana Development and Employment Council
- Orana Regional Development Board
- Premiers' Department
- Small Business People Central West
- Wellington-Orana BEC

Goulburn

- Department of State and Regional Development
- Goulburn City Council

- Mulwaree Shire Council
- New South Wales Agriculture
- Southern Meats
- Wingecarribee Shire Council

Griffith

- Alpens (Griffith) Pty Limited
- Griffith City Council
- Murray Irrigation Limited
- New South Wales Food Forum
- Riverina Regional Development Board
- SRIDC

Leeton

- Coleambally Irrigation Corporation
- Leeton Shire Council
- MIA Council of Horticultural Association
- Murray Regional Development Board
- Murray Valley Voice
- Murrumbidgee Irrigation
- National Foods Juice Limited
- New South Wales Rice Marketing Board
- Ricegrowers Co-operative
- Rice Management Board
- Rockdale Beef PC

Lismore

- Byron Shire Council
- Grafton City Council
- Lismore City Council
- New South Wales Farmers' Association
- Northern Rivers Regional Organisation of Councils
- Tweed Shire Council
- Ulmarra Shire Council

Maitland

- Cessnock City Council
- Hunter Regional Organisations of Councils
- Maitland City Council
- Port Stephens Council

Moree

- Business Enterprise Centre
- Gwydir Valley Cotton Growers' Association
- Gwydir Valley Irrigators Association Inc.
- Gwydir Water Users Association
- Moree and District Chamber of Commerce and Industry
- Moree Plains Shire Council
- New England/North West Regional Development Board
- Webb & Boland (Solicitors)

Narromine

- Kingtread Pty Ltd
- Narromine High School
- Narromine Services Club
- Narromine Shire Council

Newcastle

- Australian Business Chamber
- Newcastle and Hunter Business Chamber

Nowra

- Australian Paper
- Gates Rubber
- Illawarra Institute of Technology
- Illawarra Mercury
- Kiama Shire Council
- Morton and Harrison Solicitors
- National Australia Bank
- Nowra Chamber of Commerce
- Nowra Coaches
- Nowra Manufacturers' Association
- Nowra Newsagency
- Office of Joanna Gash MP
- Peter Price and Associates
- Shoalhaven Council
- Shoalhaven Water
- Tait, Miller and McIntyre (Accountants)

Orange

- New South Wales Agriculture
- Orange Agricultural College

Parkes

- Inland Marketing Corporation
- Lachlan Shire Council
- Parkes Business Inc.
- Parkes Shire Council

Port Macquarie

- Australia's Holiday Coast Development Board
- Department of Fair Trading
- Hastings Beef
- Hastings Co-operative Ltd
- Hastings Council
- Kempsey Timbers Pty Ltd
- Laurieton Chamber of Commerce
- Port Macquarie Chamber of Commerce

Sydney

- NSW Cabinet Office
- NSW Chamber of Fruit and Vegetable Growers
- NSW Department of State and Regional Development
- NSW Farmers' Association
- NSW Irrigators Council
- NSW Local Government and Shires Association
- NSW Premier's Department
- NSW Treasury Department

Tamworth

- Tamworth Chamber of Commerce
- Tamworth City Council
- Tamworth Development Corporation

Wagga Wagga

- Charles Sturt University
- Federal Member for Riverina (Kay Hull MP)
- Freight Corp
- Great Southern Energy
- Murrumbidgee Dairy Products
- New South Wales MP for Wagga (Joe Schipp)

Wagga Wagga - continued

- Premiers Department
- Riverina Eastern Regional Organisation of Councils
- Riverina Institute of TAFE
- Rivmilk Co-operative Limited
- Tumbarumba Shire Council
- Wagga Wagga City Council
- Wagga Wagga Economic Development Board
- Wine Grapes Marketing Board
- Women in Dairying

West Wyalong

- Bland Shire Council
- Charles Sturt Motor Inn
- Department of Land and Water Conservation
- Elders Limited
- McClintock and Co
- Milly Milly Council
- New South Wales Agriculture
- Town Advancement Group
- Western Motors

Yass

- Country Womens' Association
- New South Wales Farmers' Association
- Transgrid Electricity Corporation
- Yass Chamber of Commerce
- Yass Shire Council

Victoria

Ballarat

- Ballarat Health Services
- Department of Infrastructure (Regional office)
- Lyco Industries
- Net Connect
- Surf Coast Shire Council
- Victorian Farmers' Federation

Bendigo

- BenCon
- Business Victoria
- City of Greater Bendigo
- Goninan
- LaTrobe University
- Shire of Loddon
- VECCI

Colac

- Associated Kiln Driers
- CM Timber Processing
- Colac Otway Shire Council

Hamilton

- Glenelg Region Water Authority
- Hamilton Region 2000
- Legislative Council
- National Party of Australia, Womens' Council
- Southern Grampians Shire Council

Horsham

- Australian Women in Agriculture
- Hindmarsh Shire Council
- Horsham Rural City Council
- Luv-a-duck Pty Ltd
- Northern Grampians Shire Council
- Wimmera 2000
- Wimmera Catchment Authority
- Wimmera Development Association
- Yarriambiack Shire Council

Korumburra

- Bass Coast Shire Council
- Baw Baw Shire Council
- Bonlac Foods
- Brotherhood of St Laurence
- CEPU
- Droun Chamber of Commerce and Industry
- Koweerup Regional Health Service
- Member for Gippsland West

Korumburra - continued

- South Gippsland Shire Council

Melbourne

- Municipal Association of Victoria
- Murray Goulburn Co-operative Co Ltd
- National Competition Council
- National Road Transport Commission
- Telstra Corporation
- United Dairyfarmers of Victoria
- Victorian Department of Premier and Cabinet
- Victorian Farmers' Federation

Mildura

- Area Consultative Committee
- Boulevarde Nurseries
- Department of Natural Resources and Energy
- Department of Regional Development
- Lower Murray Water
- Mallee Family Care
- Mallee Murray Trades and Labour Council
- Mildura City Council
- Mildura District Educational Council Inc.
- Mildura Senior College
- Murray Valley Citrus Marketing Board
- Murray Valley Winegrape Development Commission
- Riverlink Council (Horticulture Centres)
- Sunraysia Citrus Growers
- Sunraysia Daily
- Sunraysia Group Training Ltd
- Sunraysia Institute of TAFE
- Sunraysia Rural Water Authority
- Thomas Consulting Group
- Trascotland Australia Pty Ltd
- Victoria Winegrape Growers Council
- Wakefield Transport

Portland

- Business Development Advisory Committee
- Glenelg Shire Council
- Portland Coast Region Water Authority
- Port of Portland

Shepparton

- Bendigo Council
- Garrets Waste Management
- Goulburn Valley Hotel
- Murray Valley Shire Council
- NP and UT Dairy Farmers
- Powercor
- Shepparton Chamber of Commerce
- Shepparton Council
- Shepparton News

Traralgon

- Advance Morwell
- Gippsland Area Consultative Commission
- Gippsland Trades and Labour Council
- LaTrobe Shire Council
- Moe Development Group
- Monumental Masons
- Office of MHR for McMillan

Warrnambool

- Deakin University (Warrnambool Campus - Social Research area)
- Deakin University Centre for Regional Development
- Warrnambool City Council
- Warrnambool Economic Development Authority

Wycheproof

- Buloke Shire Council
- Charlton and District Ambulance
- Grampians Region Water Authority
- Wycheproof 2000

Wycheproof - continued

- Wycheproof and District Health Services
- Wycheproof Lions Club
- Wycheproof P-12 College
- Wycheproof Post Office
- Wycheproof Shire Council
- Wycheproof Uniting Church Guild

Queensland

Atherton

- Atherton City Council
- Atherton Maize Marketing Co-operative
- Atherton Shire Council
- Atherton Tablelands Enterprise House Ltd
- Cardwell Shire Council
- Gordonvale Canegrowers Association
- Mareeba Canegrowers Association
- Mareeba Chamber of Commerce
- Mareeba Regional Development Board
- Queensland Rural Women's Group
- Queensland Tobacco Leaf Marketing Board
- Tablelands Chamber of Commerce

Brisbane

- Austa Energy
- Department of Main Roads
- Department of Natural Resources
- Department of Premier and Cabinet
- Office of Rural Communities
- Queensland Farmers Federation
- Queensland Local Government Association
- South East Queensland Water Board
- Treasury Department

Cairns

- Cairns Chamber of Commerce
- Citizens for Affordable Water
- Far North Queensland Electricity Board
- Gordonvale Canegrowers Association

- Gordonvale Chamber of Commerce
- Gulf Local Authorities Development Association
- GWH Business Brokers
- Mulgrave Sugar Mills

Emerald

- Bauhinia Shire Council
- Capricornia Electricity Corporation
- Department of Main Roads
- Department of Natural Resources
- Emerald Shire Council
- Queensland Farmers' Federation
- Queensland Landcare and Bushcare Councils
- Resource User Planning Process

Longreach

- Blackall Shire Council
- Capricornia Electricity
- Ilfracombe Shire Council
- Jericho Shire Council
- Longreach Shire Council
- Office of Rural Communities
- Office of the Shadow Minister for Transport and Main Roads
- Regional Women's Alliance
- Remote Area Planning and Development Board
- Winton Shire Council

Mackay

- Australian Hotels Association
- Belyando Shire Council
- BP City Driveways
- Broadsound Shire Council
- Caltex/Ampol Distributor
- Canegrowers, Mackay
- Canegrowers Network
- Mackay Electricity Board
- Mackay Taxis
- Pioneer Valley Water Board
- Queensland Hotels Association, Mackay

Mackay - continued

- Queensland Hotels Association, Sarina
- Queensland Newsagents Federation (Mackay)
- Shell City Cabs
- Shell Fourways
- Suncorp/Metway (QIDC Ltd)
- Thomas Borthwick and Sons Pty Ltd

Mount Isa

- Aboriginal and Torres Strait Islander Commission
- Cattlemens' Union
- Cloncurry Shire Council
- Mount Isa City Council
- Mount Isa Community Development Group
- Mount Isa Telecommunications Group
- Mount Isa to Townsville Economic Development Zone Incorporated

Rockhampton

- Australia Post
- Capricorn Grains
- Capricornia Electricity Corporation
- Capricornia Tourism
- Cattlemens' Union
- Central Queensland TAFE
- Chamber of Commerce and Industry
- Department of Communication and Information, Local Government and Planning
- Department of Main Roads
- Department of Mines and Energy
- Department of Natural Resources
- Department of Premier and Cabinet
- Department of Primary Industries
- Department of State Development
- Duaringa Shire Council
- Fitzroy Shire Council
- JMK Construction
- Livingstone Shire Council

- Maunsell McIntyre Pty Ltd
- Office of Consumer Affairs
- Q-Build Maintenance and Operations
- Queensland Dairy Farmers' Organisation
- Queensland Irrigators (Dawson Area)
- Rockhampton City Council
- Telstra Corporation

Roma

- Australia Post (local representative)
- Bungil Shire Council
- Chinchilla Shire Council
- Cypress Sawmilling Industry
- Queensland Master Builders Association
- Roma Shire Council
- Warroo Shire Council

Toowoomba

- Eastern Downs Regional Organisations of Councils
- Farr Evrat and Associates
- Finnemores Transport
- Garden City Cabs
- Grainco
- Graingrowers
- Larkin Teys Consulting
- Licenced Post Office Association of Queensland
- McCafferteys Buslines
- Queensland Chamber of Commerce and Industry
- South West Power
- University of Southern Queensland
- Warwick Shire Council, Mayor

Townsville

- Canegrowers Burdekin
- Department of Mines and Energy (Regional office)
- Department of Natural Resources (Regional office)
- Department of Premier and Cabinet (Regional office)

Townsville - continued

- Department of Primary Industry (Regional office)
- Department of State Development (Regional office)
- Department of State Works (Regional office)
- James Cook University
- North Queensland Economic Development Board
- Queensland Chamber of Commerce and Industry
- Thuringona Shire Council
- Townsville Chamber of Commerce
- Townsville City Council
- Townsville Port Authority

Western Australia

Albany

- Albany Chamber of Commerce and Industry
- Albany City Heart
- Albany Ports Authority
- Co-operative Bulk Handling Limited
- Department of Aboriginal Affairs
- Department of Conservation and Land Management
- Eden Gate Farm
- Education Department of Western Australia
- Fisheries Western Australia
- Great Southern Development Commission
- Plantagenet Shire
- Southern Province Projects Group
- Timber 2002
- Western Australian Contract and Management Services
- Western Australian Department of Training

- Western Australian Farmers' Federation

Bunbury

- Ashbrook Estate
- City of Bunbury
- Giacci Bros
- Gutteridge Haskins and Davey Pty Ltd
- Harvey Fresh
- Main Roads Western Australia
- Manjimup Syndicate Coolstores
- Margaret River Fruit and Vegetable Growers' Association
- Regional Development Council
- Shire of Busselton
- Shire of Collie
- Shire of Donnybrook/Balingup
- Shire of Harvey
- South West Chamber of Commerce
- South West Development Commission
- South West Local Government Association
- South West Regional Tourism Association
- Treasury Department
- Water Corporation
- Western Australian Farmers' Federation
- Western Australia Water Users' Coalition
- Western Power
- Westralian Sands Limited

Kalgoorlie

- Amalgamated Resources
- City of Kalgoorlie-Boulder
- Curtin University of Technology
- Department of Transport
- Gilbert McAuliffe Associates
- Goldfields Commercial Security
- Goldfields-Esperance Development Commission
- Herald Operations
- Kalgoorlie-Boulder Chamber of Commerce

Kalgoorlie - continued

- Kingston Surveys
- Leisure and Community Development
- McAuliffe's (Solicitors)
- Member for Eyre (Julian Grill)
- Regional Development Council
- Shire of Coolgardie
- Telstra Corporation
- Treasury Department
- Water Corporation
- Western Australian Meat Industry Authority
- Western Power
- Westrail

Katanning

- Agriculture WA
- B.K.W Co-operative Ltd
- Great Southern Development Commission
- Heritage Council of Western Australia
- Kan-Work Options Centre
- Katanning Regional Business Association
- P.L. Bolto & Co
- Shire of Cranbrook
- Shire of Gnowangerup
- Shire of Katanning

Kununurra

- Kimberley Development Commission
- Kimberley Regional College of TAFE
- Ord River District Cooperative
- Shire of Wyndham-East Kimberley

Mandurah

- Alcoa
- City of Mandurah
- Mandurah Chamber of Commerce
- Mandurah Tourist Bureau
- Ministry for Planning
- Peel Development Commission
- Shire of Boddington

- Shire of Serpentine-Jarrahdale
- Water Corporation

Narrogin

- Narrogin Motel
- Shire of West Arthur
- Wheatbelt Development Commission

Northam

- Chamber of Commerce
- C.Y. O'Connor College
- Northam Business Enterprise Centre
- Office of the Deputy Premier
- Shire of Northam
- Shire of Victoria Plains
- Water Corporation
- Wheatbelt Area Consultative Committee
- Wheatbelt Development Commission

Perth

- Agriculture WA
- Chamber of Commerce and Industry of Western Australia
- Department of Commerce and Trade
- Department of Health
- Department of Local Government
- Department of Resources and Development
- Farm Machinery Dealers Association
- Fisheries WA
- Gascoyne Development Commission
- Office of Energy
- Office of Water Regulation
- Pastoralists' and Graziers' Association of Western Australia (Inc)
- Shire of Cuballing
- Shire of Jerramungup
- Shire of Murchison
- Shire of Yalgoo
- Treasury Department
- Water Corporation
- Western Australian Farmers' Federation

Perth - continued

- Western Australian Municipal Association
- Western Power

Port Hedland

- Aboriginal and Torres Strait Islander Commission
- Bakers's Temptations
- Department of Main Roads
- East Pilbara Health Service
- Goninan
- Hamersley Iron
- Hedland Mitre 10
- Hugall and Hoile
- Pilbara Development Commission
- Port Hedland Chamber of Commerce
- Port Hedland Port Authority
- Port Operations, Dampier
- Professional Business Equipment Pty Ltd
- Town of Port Hedland Council

South Australia

Adelaide

- Administration and Information Services
- Carey Management Consultants
- Department of Human Services
- Department of Premier and Cabinet
- Department of Primary Industries and Resources
- Department of the Environment, Heritage and Aboriginal Affairs
- Department of Transport and Urban Planning
- Department of Treasury and Finance
- Local Government Association of South Australia
- South Australian Centre for Economic Studies
- South Australian Farmers' Federation

Mount Gambier

- District Council of Grant
- Education and Training Association
- Kentish and Sons
- Myora Farm
- South Australian Dairyfarmers' Association
- South East Economic Development Board
- South East Institute of TAFE

Port Augusta

- Complete Personnel
- Northern Regional Development Board
- Port Augusta Secondary School
- Select Staff
- Spencer Institute of TAFE
- Spencer Regions Area Consultative Committee
- Transport South Australia

Port Lincoln

- Chamber of Commerce
- Council of Tummy Bay
- Eyre Regional Development Board
- Local Government Association
- Shell Petroleum
- Spencer Institute of TAFE

Whyalla

- Australian Workers Union
- Bramble Industrial Services
- Whyalla Chamber of Commerce and Industries
- Whyalla City Council
- Whyalla Economic Development Board

Tasmania

Burnie

- Braddon Business Centre Limited
- Burnie Chamber of Commerce and Industry

Burnie - continued

- Burnie City Council

Devonport

- Circular Head Council
- Devonport Chamber of Commerce
- Devonport City Council
- Devonport Development Corporation
- Insight Information Services
- Kentish Council
- La Trobe Council
- North West Regional Water Authority
- Tasmanian Agricultural Productivity Group
- Tasmania's West North West Councils
- Waratah-Wynyard Council

Hadspen

- Tasmanian Dairy Industry Authority

Hobart

- Department of Education
- Department of Justice
- Department of Premier and Cabinet
- Department of Primary Industry, Water and Environment
- Treasury Department

Launceston

- Business North
- Launceston Chamber of Commerce
- Launceston City Council
- Tasmanian Farmers' and Graziers' Association
- University of Tasmania (School of Economics)

Oatlands

- Small Business Council of Tasmania
- Southern Midlands Council

Scottsdale

- Dorset Council

Sorell

- Sorell Council

Australian Capital Territory

Canberra

- Agriculture, Fisheries and Forestry Australia
- Australian Bureau of Agricultural and Resource Economics
- Australian Catholic Social Welfare Commission
- Australian Competition and Consumer Commission
- Bureau of Transport Economics
- Coles Myer Limited
- Council of Small Business Organisations of Australia
- Department of Communications and the Arts
- Department of Transport and Regional Development
- Food Retailers Association of Australia
- House of Representatives Standing Committee on Financial Institutions and Public Administration
- Minerals Council of Australia
- National Association of Forest Industries
- National Association of Retail Grocers of Australia
- National Capital Regional Leaders' Forum
- National Farmers' Federation
- National Meat Association
- SBP Western NSW
- Senate Select Committee on the Socio-economic Consequences of the National Competition Policy
- Woolworths Limited

Northern Territory

Darwin

- Attorney-General's Department
- Department of Industries and Small Business
- Department of Mines and Energy
- Department of the Chief Minister
- Local Government Association of Northern Territory
- Northern Territory Chamber of Commerce and Industry
- Northern Territory University
- Office of Communications and Advanced Technology
- Treasury Department

Katherine

- Attorney-General's Department
- Chief Ministers Department
- Dee Jay Engineering
- Department of Asian Relations
- Katherine Region Economic Development Organisation
- Katherine Town Council
- Northern Territory Chamber of Commerce and Industry
- Northern Territory Treasury
- Street Ryan Consultants
- Travel North

Nganmarriyanga

- Nganmarriyanga Community

Participants roundtable

The Commission held an additional 'participants roundtable' in Canberra in February 1999. Those who attended were:

- Agricultural Commodity Consultant (Colin Mann)
- Kempsey Timbers Pty Ltd
- Minerals Council of Australia
- National Farmers' Federation
- Office of Rural Communities (Longreach, Queensland)
- Pastoralists' and Graziers' Association of Western Australia
- SBP Western NSW
- Shepparton News
- SPC Limited
- Spencer Regions Area Consultative Committee
- Tasmanian Dairy Industry Authority
- Townsville City Council
- Women in Agriculture, New South Wales

Modelling workshop

The Commission conducted an economic modelling workshop on ‘The Effects of National Competition Policy on Rural and Regional Australia’ in Canberra in March 1999. The workshop was attended by:

- Australian Bureau of Agricultural and Resource Economics
- Canberra University (Rolf Gerritsen)
- Commonwealth Bureau of Transport Economics
- Commonwealth Department of Agriculture, Fisheries and Forestry
- Commonwealth Department of Transport and Regional Services
- Economic Insights
- Monash University (Phillip Adams)
- National Farmers’ Federation
- New South Wales Agriculture
- New South Wales Cabinet Office
- New South Wales Treasury Department
- Queensland Treasury Department
- South Australian Department of Premier and Cabinet
- University of New England (Tony Sorensen)
- University of Tasmania (John Madden)
- University of Western Australia (Ken Clements)

B Technical notes for decomposition analysis of population growth

This appendix uses data from the last three censuses to analyse the differences in the population growth of different regions. The results of the analysis reported below are summarised in chapter 2.

Changes in a region's population over time can reflect a number of influences, such as the size of industries which are located in the region and the fortunes of those industries at both the national and regional levels. Thus, relatively high population growth may be due to a relatively high proportion of the population working in that region in an industry with growth above the national average. Above average population growth may also occur in a region due to more general demographic shifts resulting from, for example, the attractiveness of the region as a retirement location and the movement of people to take advantage of this.

One way of explaining differences in population growth between regions is to look at how growth differs from the national average, and to assess what has brought about that difference by examining the contribution of various industries (eg agriculture and mining) and population groups (eg older people or the employed) to the growth in that region. This can be done through a decomposition (or 'shift-share') analysis. The data used and the form of this analysis are explained below.

B.1 Data

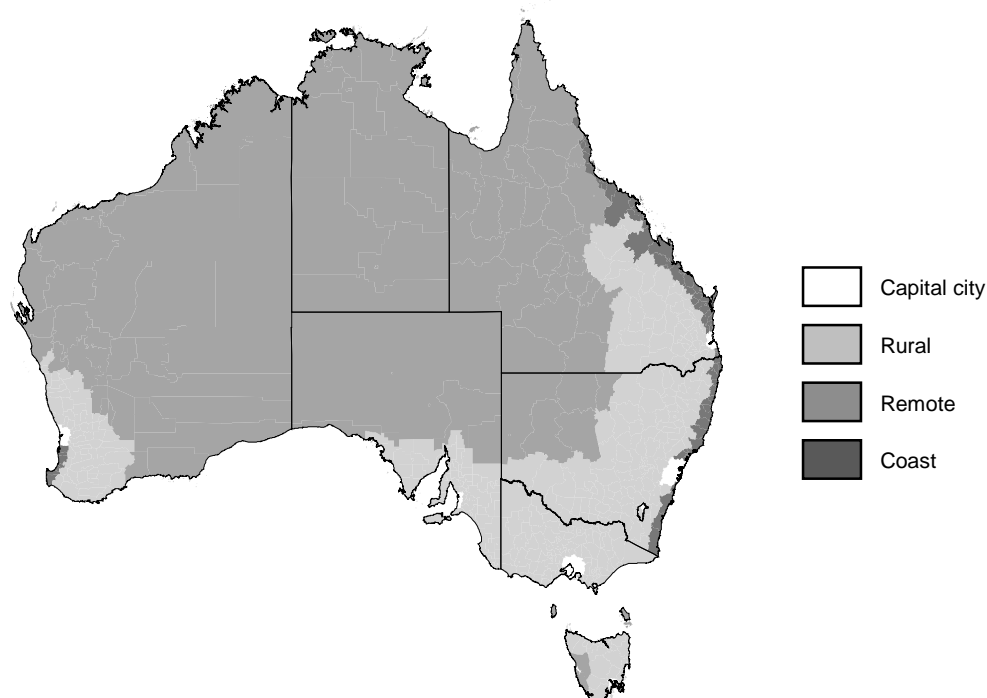
The data used in this decomposition analysis come from the 1986, 1991 and 1996 ABS Censuses of Population and Housing. Data from these censuses give the breakdown of population by labour force status and, when employed, the industry of employed persons for each of the 1336 statistical local areas (SLAs) across Australia. These data are used to calculate average annual regional population growth rates for the periods 1986–91 and 1991–96.

In order to differentiate effects on various regions in Australia, the SLAs have been combined into four regional groupings:

-
- capital city areas — made up of the statistical divisions of the eight capital cities plus the population Census group of offshore areas and migratory persons. This group accounts for 63 per cent of the Australian population;
 - coastal areas — comprising all the SLAs along the coast between Port Douglas in Queensland and Eden in New South Wales, and between Margaret River and the outskirts of Perth in Western Australia. This region accounts for 15.6 per cent of the Australian population and is identified as an area of significant population growth (chapter 2). Thus, it has been selected in order to detect the main contributors to the difference in its population growth from the national average;
 - remote areas — uses the definition of the Australian Taxation Office for its zone rebate scheme, and comprises more than three-quarters of the Australian landmass, with only 2.5 per cent of the Australian population; and
 - rural areas — comprising the remaining SLAs, which include parts of Queensland, South Australia and Western Australia, and the majority of Victoria, New South Wales and Tasmania. Nineteen per cent of Australia's population resides in the rural region;

A map of the four regions appears in figure B.1 and a list of the SLAs included in each region appears in table B.1.

Figure B.1 Map of Australia by Statistical Local Areas, shaded by region



Data sources: ABS IRDB (1998c); ATO (1998).

Table B.1 List of Statistical Local Areas by region

Capital city – 569 SLAs	Maroochy (S) Bal	Kilcoy (S)
Sydney (SD) – 46 SLAs	Maryborough (C)	Kilkivan (S)
Melbourne (SD) – 74 SLAs	Miriam Vale (S)	Kingaroy (S)
Brisbane (SD) – 225 SLAs	Mount Morgan (S)	Laidley (S)
Adelaide (SD) – 31 SLAs	Noosa (S) Bal	Monto (S)
Perth (SD) – 37 SLAs	Northern (SD) exc Charters Towers (C) and Dalrymple (S) – 34 SLAs	Mundubbera (S)
Greater Hobart (SD) – 8 SLAs	Rockhampton (C)	Murgon (S)
Darwin (SD) – 35 SLAs	Sunshine Coast (SSD) – 12 SLAs	Nanango (S)
Canberra (SD) – 106 SLAs	Tiaro (S)	Nebo (S)
Offshore Areas and Migratory – 7 SLAs	Woocoo (S)	Peak Downs (S)
	<u>WA</u>	Perry (S)
Coast – 170 SLAs	Bunbury (C)	Roma (T)
<u>NSW</u>	Capel (S)	Warroo (S)
Bellingen (A)	Dale (SSD) exc Boddington – 3 SLAs	Wondai (S)
Coffs Harbour (C)	Dardanup (S)	<u>SA</u> – 92 SLAs
Grafton (C)	Harvey (S)	Carrieton (DC)
Greater Taree (C)	Vasse (SSD) – 2 SLAs	Crystal Brook–Redhill (DC)
Great Lakes (A)	<u>Other territories</u>	Eyre (SD) exc Unincorp West Coast – 11 SLAs
Hastings (A)	Jervis Bay Territory	Hallett (DC)
Illawarra (SD) exc Wingecarribee – 4 SLAs		Hawker (DC)
Kempsey (A)	Rural – 484 SLAs	Jamestown (DC)
Lower South Coast (SSD) – 2 SLAs	<u>NSW</u> – 106 SLAs	Kanyaka–Quorn (DC)
Maclean (A)	Central West (SD) – 18 SLAs	Mount Remarkable (DC)
Nambucca (A)	Copmanhurst (A)	Murray Lands (SD) – 92 SLAs
Newcastle (SSD) – 6 SLAs	Hunter SD Bal (SS) exc Great Lakes (A) – 7 SLAs	Orroroo (DC)
Richmond–Tweed (SD) exc Kyogle – 7 SLAs	Kyogle (A)	Outer Adelaide (SD) – 16 SLAs
Ulmarra (A)	Murray (SD) – 16 SLAs	Peterborough (M)
	Murrumbidgee (SD) – 14 SLAs	Peterborough (DC)
<u>Qld</u>	Northern (SD) – 21 SLAs	Pirie (DC)
Atherton (S)	North Western (SD) exc Upper Darling (SSD) – 11 SLAs	Port Augusta (C)
Biggenden (S)	Nymboida (A)	Port Pirie (C)
Bundaberg (C)	South Eastern (SD) exc Lower South Coast (SSD) – 15 SLAs	Rocky River (DC)
Burnett (S) – Pt A	Wingecarribee (A)	South East (SD) – 12 SLAs
Burnett (S) – Pt B	<u>Vic</u> – 125 SLAs	Whyalla (C)
Caboolture (S) – Pt B	All exc Melbourne (SD) and Offshore Areas and Migratory (SD)	Yorke and Lower North (SD) – 18 SLAs
Cairns City Part A (SSD) – 7 SLAs	<u>Qld</u> – 58 SLAs	Unincorp. Whyalla
Cairns (C) – Pt B	Balonne (S)	<u>WA</u> – 70 SLAs
Calliope (S) – Pt A	Banana (S)	Avon (SSD) – 14 SLAs
Calliope (S) – Pt B	Bauhinia (S)	Blackwood (SSD) – 4 SLAs
Caloundra (C) – Hinterland	Beaudesert (S) – Pt B	Boddington (S)
Caloundra (C) – Rail Corridor	Belyando (S)	Bruce Rock (S)
Cardwell (S)	Bendemere (S)	Collie (S)
Cooloolo (S) (exc Gympie)	Boonah (S)	Donnybrook–Balingup (S)
Cooloolo (S) – Gympie only	Booringa (S)	Greenough River (SSD) exc Mullewa (S) and Northampton (S) – 10 SLAs
Douglas (S)	Bungil (S)	Kellerberrin (S)
Eacham (S)	Darling Downs (SD) – 26 SLAs	Lower Great Southern (SD) – 13 SLAs
Fitzroy (S) – Pt A	Duaringa (S)	Merredin (S)
Fitzroy (S) – Pt B	Eidsvold (S)	Moore (SSD) – 5 SLAs
Gladstone (C)	Emerald (S)	Narembreen (S)
Gold Coast City Part B (SSD) – 40 SLAs	Esk (S)	Nungarin (S)
Hervey Bay (C)	Gatton (S)	Trayning (S)
Isis (S)	Gayndah (S)	Upper Great Southern (SD) – 15 SLAs
Johnstone (S)	Ipswich (C) – South–West	<u>Tas</u> – 32 SLAs
Kolan (S)	Ipswich (C) – West	Mersey–Lyell (SD) exc King Island (M) and West Coast (M) – 11 SLAs
Livingstone (S)	Jericho (S)	
Mackay (SD) exc Belyando (S) and Nebo (S) – 6 SLAs		

Table B.1 (continued)

Northern (SD) exc Flinders (M) – 13 SLAs	Dalrymple (S)	Mount Marshall (S)
Southern (SD) – 8 SLAs	Etheridge (S)	Mukinbudin (S)
<u>ACT</u>	Herberton (S)	Mullewa (S)
Remainder of ACT	Mareeba (S)	Northampton (S)
	Murweh (S)	Pilbara (SD) – 4 SLAs
	North West (SD) – 9 SLAs	South Eastern (SD) – 9 SLAs
	Paroo (S)	Westonia (S)
Remote – 113 SLAs	Quilpie (S)	Yilgarn (S)
<u>NSW</u> – 7 SLAs	Torres (S)	<u>Tas</u> – 3 SLAs
Far West (SD) – 3 SLAs	<u>SA</u> – 6 SLAs	Flinders (M)
Lord Howe Island	Cooper Pedy (DC)	King Island (M)
Upper Darling (SSD) – 3 SLAs	Roxby Downs (M)	West Coast (M)
<u>Qld</u> – 34 SLAs	Unincorp. West Coast	<u>NT</u> – 27 SLAs
Aurukun (S)	Unincorp. Pirie	Northern Territory – Bal (SD)
Bulloo (S)	Unincorp. Flinders Ranges	<u>Other Territories</u> – 2 SLAs
Central West (SD) – 11 SLAs	Unincorp. Far North	Territory of Christmas Island
Charters Towers (C)	<u>WA</u> – 34 SLAs	Territory of Cocos (Keeling) Islands
Cook (S) (exc Weipa)	Carnegie (SSD) – 7 SLAs	
Cook (S) – Weipa only	Gascoyne (SSD) – 4 SLAs	
Croydon (S)	Kimberley (SD) – 4 SLAs	
Legend:		
SD – statistical division	A – area	M – municipality
SSD – sub-statistical division	C – city	S – shire
SLA – statistical local area	DC – district council	T – town

Model outline

The contribution of a population group to regional growth depends on the share of the population group in the regional population and the rate of growth of the grouping. Population growth in a region can be represented as the weighted sum of growth in each population group, that is:

$$p_r = s_{er}p_{er} + s_{ur}p_{ur} + s_{or}p_{or} + s_{tr}p_{tr} \quad (1)$$

where the items labelled s represent the share of each population category in the total population of the region and p represents the growth in each population category. Subscript r represents the region, e employed persons in the labour force, u unemployed persons in the labour force, o older persons not in the labour force, and t others (mainly the young, students and those performing full-time home duties). Adding and subtracting national population growth (subscript A):

$$p_r = p_A + ((s_{er}p_{er} + s_{ur}p_{ur} + s_{or}p_{or} + s_{tr}p_{tr}) - p_A) \quad (2)$$

Thus, if each group was equally important in each region and if each activity grew at the national average, each region would grow at the national rate, thus:

$$p_r = p_A \quad (3)$$

When (3) is not satisfied, the bracketed expression in (2) shows the difference between regional and national population growth. This difference can be explored by further disaggregation, as follows. First, the importance of differences between national and regional population group growth can be investigated by substituting into the bracketed expression the share-weighted components of national population growth to give:

$$p_r = p_A + (s_{er}p_{er} + s_{ur}p_{ur} + s_{or}p_{or} + s_{tr}p_{tr}) - (s_{eA}p_{eA} + s_{uA}p_{uA} + s_{oA}p_{oA} + s_{tA}p_{tA}) \quad (4)$$

Adding and subtracting the regional-share-weighted national growth, that is, $s_{er}p_{eA} + s_{ur}p_{uA} + s_{or}p_{oA} + s_{tr}p_{tA}$, and rearranging terms then gives:

$$p_r = p_A + [s_{er}(p_{er} - p_{eA}) + s_{ur}(p_{ur} - p_{uA}) + s_{or}(p_{or} - p_{oA}) + s_{tr}(p_{tr} - p_{tA})] - [(s_{eA} - s_{er})p_{eA} + (s_{uA} - s_{ur})p_{uA} + (s_{oA} - s_{or})p_{oA} + (s_{tA} - s_{tr})p_{tA}] \quad (5)$$

In this arrangement, the first bracketed expression describes the importance of different growth rates in the population groupings in contributing to differences between national and regional average population growth. The components of the second bracketed expression consider the contribution from different shares of the population groupings within the regional population.

A similar exercise can be undertaken to decompose differences in employment growth rates to derive the contributions from the major industries. The model in this case takes on the following appearance:

$$p_{er} = p_{eA} + [s_{1r}(p_{1r} - p_{1A}) + s_{2r}(p_{2r} - p_{2A}) + s_{3r}(p_{3r} - p_{3A}) + s_{4r}(p_{4r} - p_{4A})] - [(s_{1A} - s_{1r})p_{1A} + (s_{2A} - s_{2r})p_{2A} + (s_{3A} - s_{3r})p_{3A} + (s_{4A} - s_{4r})p_{4A}] \quad (5)$$

Where subscript *1* represents agriculture, forestry and fishing; *2* mining; *3* manufacturing; and, *4* other industries (mainly the service industries).

By using these expressions to decompose regional population growth and employment growth, it is possible to derive the main factors contributing to any differences from the national average. For example, if a relatively large proportion of the employed people in a particular region work in an industry providing declining employment opportunities across Australia, this national decline would be modelled as having a negative impact on the employment growth rate in that region. This negative impact could be offset by an above average performance of the regional industry or growth in other activities.

B.2 Results

Decomposition of differences in population growth rates

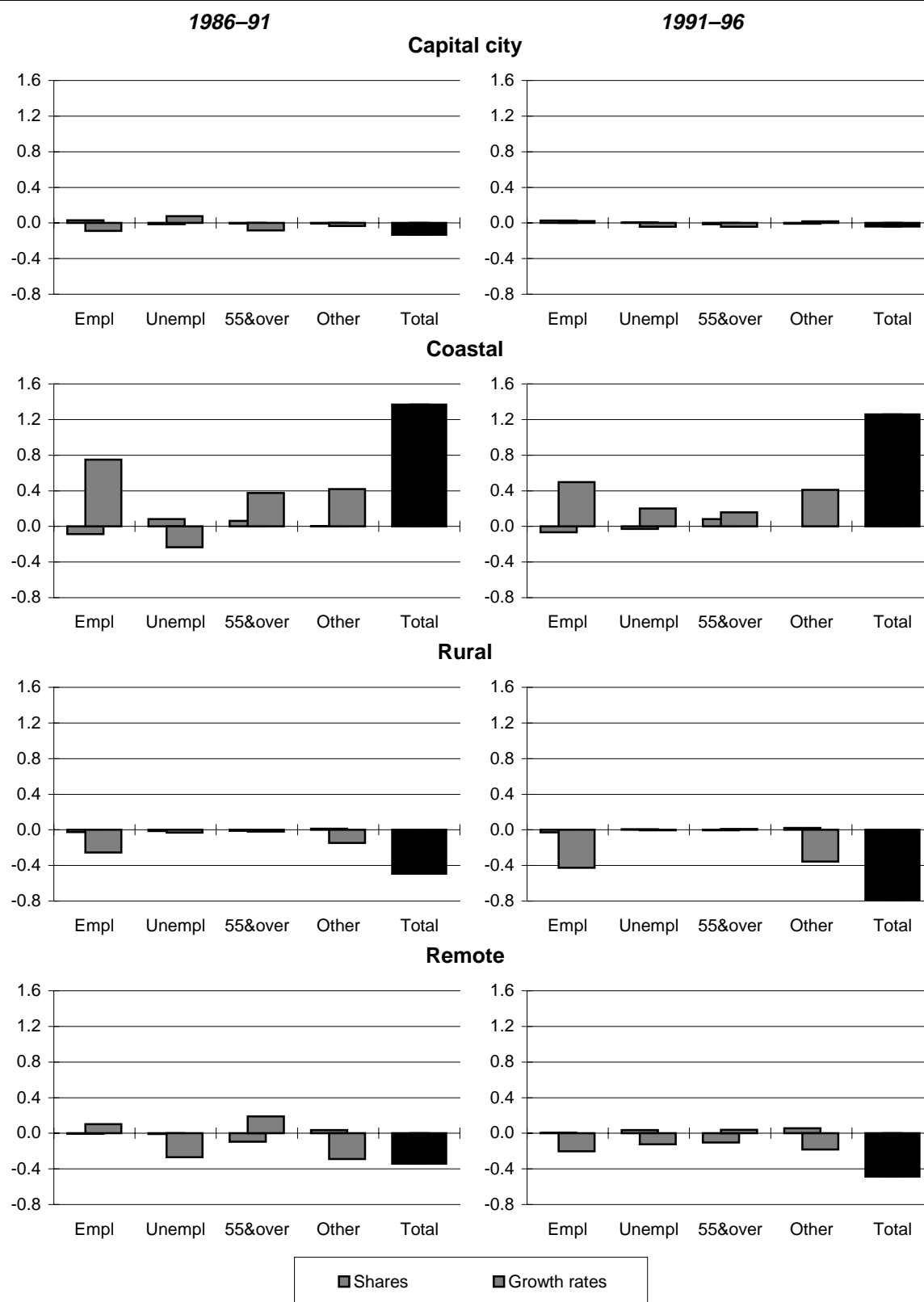
Results from the decomposition analysis of population growth rates are shown in figure B.2 and table B.2 (the latter is shown at the end of the appendix).

The total population growth data demonstrate the strong trend of ‘coastal drift’ as discussed in chapter 2. Population growth in coastal areas was considerably higher than the national average during both intercensal periods — 1.37 percentage points higher during 1986–91 and 1.26 percentage points higher during 1991–96. On the other hand, the capital city areas grew at a rate just below the national average — 0.13 and 0.04 percentage points less than the national average during 1986–91 and 1991–96, respectively. Rural and remote areas were the slowest growing of all regions over the two periods examined — 0.49 and 0.34 percentage points less than the national average, respectively, during 1986–91, and 0.79 and 0.49 percentage points during 1991–96.

Figure B.2 presents the factors contributing to each of the above regional differences. These factors sum across to the total difference from the national average population growth rate. Major features apparent from the data include:

- changes in employment growth were in general the single most important contributors to population changes for each regional grouping. Because of the importance of employment changes to regional population changes, relative differences in employment growth rates were also the main source of difference in population growth rates between regions. This was particularly so for coastal areas between 1986–91, where faster employment growth was the largest contributor to faster population growth (0.75 out of 1.37 per cent), and in rural areas between 1991–96, where slower employment growth was the largest contributor to slower population growth (-0.43 out of -0.79 per cent);
- changes in the number of unemployed were also important contributors to regional population changes. However, the direction of change varied between regions. During 1986–91, slower regional growth in persons made a negative contribution towards population growth in coastal areas (-0.24 per cent), remote areas (-0.27 per cent) and, to a lesser extent, in rural areas (-0.03 per cent). On the other hand, unemployment growth was faster in the capital city areas, contributing 0.07 per cent. In other words, in the years leading up to the 1991 recession, the number of unemployed tended to grow faster in the city areas. However, during 1991–96, a period of economic recovery and reduction in the total number of unemployed, the number of unemployed was a component of the

Figure B.2 Decomposition of differences in population growth rates



Source: Commission estimates.

stronger population growth on the coast (0.20 out of 1.26 per cent). This was due to a slower rate of decline in unemployment in that region;

- there is strong evidence of a preference by older people to move away from capital city and rural areas in favour of coastal areas, and to a lesser extent remote areas. For example, during the period 1986–91 stronger growth in the number of older persons was a notable positive component of population growth on the coast (0.38 out of 1.37 per cent), while weaker growth was a negative element in the capital city areas (-0.09 out of -0.13 per cent);
- the direction of change of the remainder of the population (the ‘other’ category, which includes those not in the labour force aged 15–54 years and all those aged 0–14 years) in general mirrors that of the employed (the only exception was in the remote region during 1986–91). This could stem from the fact that these people are often dependent on income-earners and thus move with them; and
- the contribution from differences in shares was smaller, on the whole, than from differences in growth rates. The most notable contribution was due to the smaller share of older persons in remote Australia, causing that region to ‘miss out’ on growth in that section of the population during both intercensal periods. This made a negative contribution to population growth in that regional group. On the other hand, the larger share of older persons on the coast made a positive contribution to its population growth. The larger share of unemployed persons on the coast also made a positive contribution to its population growth during 1986–91 when the number of unemployed was growing nationwide. Of course, the larger shares of unemployed and older persons, by definition, mean a smaller share of employed persons, which made a negative contribution to population growth on the coast.

Decomposition of differences in employment growth rates

The decomposition analysis of differences in employment growth rates represents further breakdown of the above population changes. The analysis decomposes the difference between the regional employment growth rate and the national average into contributions from each of four industry sectors: agriculture, mining, manufacturing and other (hereafter called ‘services’). Results from the decomposition analysis of employment growth rates are shown in figure B.3 and table B.3 (the latter is shown at the end of the appendix).

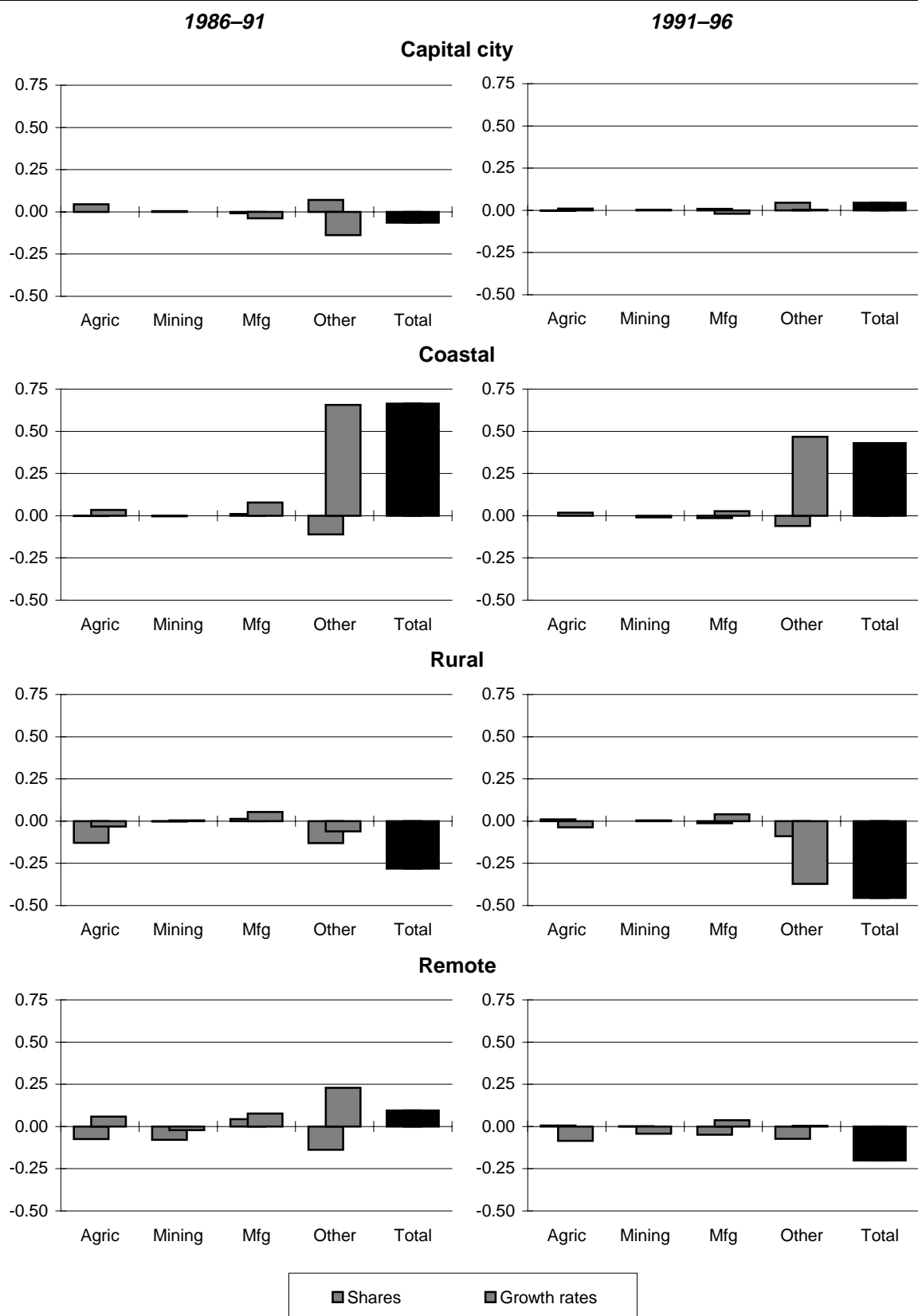
The total employment growth data again demonstrate the trend of ‘coastal drift’. Employment growth in coastal areas was considerably higher than the national average during both intercensal periods — 0.66 percentage points higher during the period 1986–91 and 0.43 percentage points higher during 1991–96. On the other hand, employment growth in rural areas was substantially slower than the average

— 0.28 and 0.45 percentage points, during 1986–91 and 1991–96, respectively. Employment in capital city areas grew slightly below the average during 1986–91 and more quickly during 1991–96. Employment in remote areas grew slightly above the average during 1986–91 (by 0.09 percentage points) and below average during 1991–96 by (0.20 percentage points).

Figure B.3 presents the elements of each of the above regional differences. Again, these factors sum across to the total difference from the national average employment growth rate. Major conclusions which can be drawn include:

- the main difference in regional employment growth rates was the difference in the employment growth in services. Significantly higher growth in employment in coastal areas was mainly due to higher growth in employment in service industries. The opposite was the case in rural Australia, where slower growth in employment in services contributed strongly to a reduced employment growth rate, particularly in the 1991–96 (0.37 out of 0.45 per cent). There also was slower growth in employment in that sector in the capital city areas, which made a negative contribution there. However, that was not the case with remote areas which experienced a growth in service activity in both periods, but particularly in 1986–91;
- differences in the share of services were also notable components of differing rates of overall employment growth during both periods. This was attributable to the large role played by such industries in the economy and the strong growth occurring in many of the service industries. The higher share of services in the capital city areas was a positive element in employment growth, whereas the lower share of services gave a negative contribution in all other regions, as those regions ‘missed out’ on employment growth in those industries;
- agricultural employment contracted nationwide during 1986–91 and grew fractionally during 1991–96. Over both the 1986–91 and the 1991–96 periods, a decline in rural agricultural employment was a component in slower employment growth in rural areas (for example, -0.03 out of -0.28 per cent in 1986–91). However, faster growth in agricultural employment in the capital city areas and in coastal areas contributed positively to employment growth in those regions;
- national employment in the mining industry contracted during 1986–91 and was stagnant during 1991–96. The contraction contributed to slower employment growth in the remote region, due to its higher share of mining employment; and
- manufacturing industry employment in Australia contracted during 1986–91 and expanded during 1991–96. An important influence in these changes is likely to have been the effects of the recession centred around 1991. In capital city areas, the contraction of manufacturing employment was more severe than the national average in 1986–91 and growth was slower than average in 1991–96.

Figure B.3 Decomposition of differences in employment growth rates



Source: Commission estimates.

Hence, the rate of change of manufacturing employment was a negative component of total employment growth in capital city areas (-0.04 per cent in 1986–91 and -0.02 per cent in 1991–96). On the other hand, above-average growth in manufacturing employment ensured it was a positive element in employment growth in all other regions between 1986 and 1996.

The Commission also undertook a further decomposition analysis of the male and female population. It found the pattern of change to be similar to the results reported here for males and females combined.

Table B.2 **Decomposition of differences in population growth rates, 1986–96**

<i>Population group</i>		<i>Employed</i>		<i>Unemployed</i>		<i>55 & over</i>		<i>Others</i>		Total difference	National growth rate
Contribution of differences in:		shares	growth rates	shares	growth rates	shares	growth rates	shares	growth rates		
1986–91	Capital cities	0.0277	-0.0911	-0.0131	0.0748	-0.0065	-0.0854	-0.0059	-0.0349	-0.1343	1.5221
	Coast	-0.0877	0.7510	0.0803	-0.2356	0.0619	0.3760	0.0016	0.4202	1.3677	1.5221
	Rural	-0.0249	-0.2561	-0.0131	-0.0306	-0.0109	-0.0209	0.0129	-0.1486	-0.4923	1.5221
	Remote	-0.0070	0.1014	-0.0087	-0.2698	-0.0949	0.1912	0.0347	-0.2885	-0.3416	1.5221
1991–96	Capital cities	0.0248	0.0203	0.0039	-0.0427	-0.0139	-0.0421	-0.0086	0.0185	-0.0398	1.1380
	Coast	-0.0677	0.4973	-0.0286	0.2040	0.0818	0.1597	-0.0011	0.4125	1.2578	1.1380
	Rural	-0.0282	-0.4258	0.0051	-0.0051	-0.0044	0.0074	0.0215	-0.3569	-0.7864	1.1380
	Remote	0.0032	-0.2042	0.0341	-0.1245	-0.1054	0.0364	0.0547	-0.1817	-0.4875	1.1380

Source: Commission estimates

Table B.3 **Decomposition of differences in employment growth rates, 1986–96**

<i>Industry</i>		<i>Agriculture, forestry and fishing</i>		<i>Mining</i>		<i>Manufacturing</i>		<i>Other</i>		Total difference	National growth rate
Contribution of differences in:		shares	growth rates	shares	growth rates	shares	growth rates	shares	growth rates		
1986–91	Capital cities	0.0443	0.0003	0.0043	-0.0001	-0.0086	-0.0378	0.0712	-0.1369	-0.0633	1.7139
	Coast	-0.0024	0.0339	-0.0028	-0.0009	0.0106	0.0780	-0.1098	0.6570	0.6633	1.7139
	Rural	-0.1283	-0.0326	-0.0012	0.0036	0.0140	0.0539	-0.1295	-0.0613	-0.2810	1.7139
	Remote	-0.0743	0.0592	-0.0791	-0.0212	0.0432	0.0762	-0.1380	0.2290	0.0944	1.7139
1991–96	Capital cities	-0.0035	0.0105	0.0000	0.0024	0.0089	-0.0207	0.0449	0.0025	0.0451	1.4964
	Coast	0.0002	0.0172	0.0000	-0.0090	-0.0134	0.0275	-0.0600	0.4671	0.4296	1.4964
	Rural	0.0105	-0.0364	0.0000	0.0047	-0.0120	0.0408	-0.0893	-0.3721	-0.4540	1.4964
	Remote	0.0061	-0.0842	0.0005	-0.0426	-0.0484	0.0368	-0.0731	0.0037	-0.2011	1.4964

Source: Commission estimates

C Legislation reviews and the marketing of rural products

Under the Competition Principles Agreement (CPA) of the National Competition Policy (NCP), the Commonwealth, State and Territory governments agreed to:

- develop a timetable for legislative reviews, by June 1996;
- review, and where appropriate reform, legislation that restricts competition by the end of 2000; and
- ensure that new legislation which restricts competition passes the competition test — that is, the benefits to the community as a whole must outweigh the costs, and the objectives of the legislation can only be achieved by restricting competition.

The timetable was developed by June 1996 as planned. Altogether some 1800 pieces of legislation have been identified for review.

This appendix details each jurisdiction's progress, as of 31 December 1998, in reviewing and reforming legislation which restricts competition in the marketing of primary products. The appendix draws on publicly available information such as the National Competition Council's *Legislation Review Compendium* (NCC 1998e) and *Second Tranche Assessment of Governments' Progress with Implementing National Competition Policy and Related Reforms* (NCC 1999b).

The primary focus is on statutory marketing legislation for agricultural commodities. Other legislation of importance to country Australia which is to be reviewed for its effects on competition, but which is not included in this appendix, includes:

- marketing arrangements which may enable producers to raise prices above competitive levels, but which do not operate through a statutory marketing authority (SMA) — such as restrictions on the sale of seeds, horticultural stock and fertilisers;
- long-term contracts which give exclusive access to a particular resource, as well as licensing and other entry regulations. These are common in fisheries, forestry and mining. Although there are resource management issues relating to environmental sustainability which may justify the existing (or similar) entry restrictions, there is clear potential for them to be uncompetitive; and

-
- legislation which may have a significant cost or other impact on rural industries but which can be justified on public interest grounds, such as legislation governing health and food standards.

Other marketing restrictions with the potential to be anti-competitive, but which do not operate through an SMA, include regional food markets which have a legislated monopoly for the wholesale of fresh food. These are included in this appendix.

Typically, statutory marketing legislation is anti-competitive as it grants SMAs monopoly powers to:

- compulsorily acquire (vest) an entire crop;
- regulate the quality or price of the commodity; or
- act as the single seller on either or both the export and domestic markets.

While elements of such statutory marketing arrangements apply to many agricultural commodities, there are exceptions such as horticultural crops, cotton, winegrapes and wine. As the NCC has said ‘arrangements underpinning SMAs are prima facie anti-competitive’ (NCC 1998b, p. 103).

C.1 Commonwealth

Overall, the Commonwealth has scheduled approximately 100 pieces of legislation for review, 67 of them listed for the Second Tranche Assessment. As of December 1998, some 40 reviews had been completed, with another three still underway.

The scheduled timing of reviews of Commonwealth statutory marketing legislation is set out in table C.1. The review of the *Pig Industry Act 1986* and associated legislation commenced in June 1998. Public submissions were due by late October 1998, but no formal hearings were to be held. The review committee was required to report by 31 January 1999, with the Minister of Agriculture, Forestry and Fisheries to respond within six months of receipt of the report. As of August 1999, there had been no response.

The review of the Primary Industries Levies Acts and related Collection Acts commenced in June 1998. Again, public submissions were called for, but no formal hearings held. The review committee reported to the Minister at the end of December 1998, and the Government was to respond within six months. As of August 1999, there had been no response.

Table C.1 Reviews of Commonwealth primary industries legislation

<i>Name of legislation</i>	<i>Agency</i>	<i>Date of review</i>	<i>Reform progress</i>
Dairy Industry Legislation	AFFA	1998-99	Not yet commenced
Dried Vine Fruits Legislation	AFFA	1998-99	Act repealed
<i>Pig Industry Act 1986</i> and related Acts	AFFA	1997-98	Underway
Primary Industries Levies Acts and related Collection Acts	AFFA	1997-98	Underway
<i>Wheat Marketing Act 1989</i>	AFFA	1999-00	Not yet commenced
<i>Wool International Act 1993</i>	AFFA	1997-98	Deleted. Once the stockpile has been liquidated, the Act will be repealed.

Notes: AFFA: Dept. Agriculture, Forestry and Fisheries — Australia.

Source: NCC (1998e).

Table C.2 sets out the legislation for which reviews are not scheduled under the initial legislation review schedule. The reasons for not scheduling these are that they have been reviewed only recently, and will be re-reviewed on a systematic basis every ten years (Commonwealth of Australia 1998a).

Table C.2 Commonwealth legislation not included in the review schedule

<i>Name of legislation</i>
<i>Australian Horticultural Corporation Act 1987</i>
<i>Australian Wine and Brandy Corporation Act 1980</i>
<i>AWBC Amendment Act 1993</i>
<i>Meat and Livestock Industry Act 1995</i> and regulations
<i>Australian Meat & Livestock (Quotas) Act 1990</i>
<i>Australian Meat & Livestock (Quotas) Amendment Act 1993</i>
<i>Australian Wool Research and Promotion Act 1993</i>

Source: Commonwealth of Australia (1998a, pp. 23–5).

Outcomes

Although not scheduled for review until 1999-2000, the statutory marketing arrangements for wheat were changed during 1997 and 1998. In July 1999, the Australian Wheat Board (AWB) was restructured into a grower-owned and controlled company — known as AWB Limited — with two subsidiaries (AWB (International) Limited and AWB (Australia) Limited). Collectively, they are known as the AWB Group.

AWB Limited will act as a borrower and provide funding for the AWB Group, on-lending to the subsidiaries. AWB (Australia) Limited will be responsible for domestic wheat and other grain sales and the export of grains other than wheat. It will also be able to participate in other commercial ventures.

AWB (International) Limited will be responsible for wheat export pools and will operate the single desk export monopoly for wheat. The legislation includes an exemption for the activities of AWB (International) Limited from the competitive

conduct rules of the Trade Practices Act (TPA). The activities of AWB (International) Limited will be monitored by the Wheat Export Authority (WEA).

In July 1998, a new regulatory and institutional arrangement came into operation for the red meat industry, with the establishment of three producer owned companies — Meat and Livestock Australia (MLA), the Australian Meat Processors Corporation (AMPC) and Livecorp — to replace the Australian Meat and Livestock Corporation, the Meat Research Council and the Meat Industry Council. AMPC is a processor-owned company, while Livecorp is a livestock exporter-owned company.

MLA has been established as a producer-owned company to:

... provide professional services and other activities for the benefit of members and contracting parties dealing with market access, research and development, animal health and welfare, meat safety and hygiene, crisis and issues management, meat standards, and database collection and analysis and core marketing and promotion activities as well as other services required (and funded) by members and contracting parties in the interests of the industry. (Minister for Primary Industries and Energy 1998a, p. 3)

MLA is funded by compulsory levies collected from cattle, sheep and goat producers. Processors will contribute funding to MLA through the AMPC, and exporters of live animals through Livecorp. AMPC and Livecorp are funded through voluntary processor and exporter contributions, although the Government has signalled that it will reimpose levies to fund activities if contributions prove insufficient (Hicks and Ireland 1997, p. 11).

In December 1997, the Parliamentary Secretary to the Minister for Primary Industries and Energy announced plans (following approaches from the Australian Dried Fruit Association recommending changes to the present arrangements) for meetings with stakeholders in the dried fruits industry to discuss industry reforms. As a result, the *Dried Vine Fruits Equalisation Act 1978* was repealed in December 1998. The equalisation scheme which operated under the Act ceased from 1 January 1999. During the second reading speech delivered when the Bill repealing the Act was introduced into Parliament in July 1998, the then Minister for Customs and Consumer Affairs stated:

The dried vine fruits industry is the only commodity which continues to operate an equalisation scheme. The industry now contends that, in the prevailing market circumstances, equalisation arrangements are inappropriate and mask market signals and inhibit industry and marketing innovation. (Commonwealth of Australia 1998b, p. 5873)

A Horticultural Industry Alliance Steering Committee has been established to investigate the feasibility of forming a new single entity to deliver services to the

horticultural industry which are provided currently by the Australian Horticultural Corporation and the Horticultural Research and Development Corporation.

C.2 New South Wales

New South Wales has listed approximately 185 pieces of legislation for review — 143 of those scheduled for the second tranche. By the Second Tranche Assessment, 60 had been completed, with 78 still underway. Table C.3 sets out the schedule for review legislation affecting the marketing of rural products.

To date, reviews have been completed of the *Banana Industry Act 1987*, the *Dairy Industry Act 1979*, the *Farm Produce Act 1983*, the *Meat Industry Act 1978*, the *MIA Citrus Fruit Promotion Marketing Committee [Marketing of Primary Products Act 1983]*, the *MIA Citrus Fruit Promotion Marketing Order*, the *MIA Wine Grapes Marketing Board*, the *Poultry Processing Act 1969*, the *Rice Marketing Board [Marketing of Primary Products Act 1983]*, and the *Tobacco Leaf Stabilisation Act 1967*.

The *Grain Marketing Act 1991* is currently under review. The Review Group reported to the Minister for Agriculture and Minister for Land and Water Conservation on 30 September 1998, but the outcomes of this review were not made public at the time.

A review of those parts of the *Marketing of Primary Products Act 1983* relating to the Murray Valley (NSW) Wine Grape Industry Marketing Order 1994 and the Murray Valley (NSW) Wine Grape Processing Industry Marketing Order 1995 was conducted by KPMG Management Consulting Limited as part of a joint review with the *Victorian Agricultural Industry Development Act 1990*. KPMG was expected to report by November 1998, but the review was still underway as of July 1999.

A joint New South Wales/Victorian review by the Centre for International Economics (CIE) of the *Murray Valley Citrus Marketing Acts 1989* (Victoria and New South Wales) commenced in November 1998. The CIE released an issues paper on 10 November 1998. Public submissions (due by 24 December 1998) were called for and direct consultation with relevant stakeholders, including public meetings in the Murray Valley, were undertaken. The report to the relevant Ministers in each State was due by March 1999, but had not been completed before the release of the Second Tranche Assessment in July 1999 (NCC 1999b, vol. 3).

Table C.3 Reviews of New South Wales statutory marketing legislation

<i>Name of legislation</i>	<i>Agency</i>	<i>Date of review</i>	<i>Reform progress</i>
<i>Banana Industry Act 1987</i>	Ag	1995-96	Completed. Banana Industry Committee and some of its functions retained.
<i>Co-operatives Act 1992</i>	FT	1997-98	Underway.
<i>Dairy Industry Act 1979</i>	Ag	1996-97	Completed; current pricing and supply regulations to remain to July 2003.
<i>Dried Fruits Act 1939</i>	Ag	1997-98	Completed. Act repealed, industry deregulated.
<i>Farm Produce Act 1983</i>	Ag	1995-96	Completed. Act repealed.
<i>Grain Marketing Act 1991</i>	Ag	1997-98	Underway.
<i>Marketing of Primary Products Act 1983</i>	Ag	1997-98	Not commenced. Will be started when constituent marketing boards have been separately reviewed.
<i>Meat Industry Act 1978</i>	Ag	1995-96	Completed. Regulatory powers transferred to new statutory body, Safe Food Production.
MIA Citrus Fruit Promotion Marketing Committee [<i>Marketing of Primary Products Act 1983</i>]	Ag	1996-97	Completed. Committee retained with reduced powers.
<i>MIA Wine Grapes Marketing Board</i>	Ag	1995-96	Completed. Vesting powers will cease after 31 July 2000.
Murray Valley Wine Grapes Ind. Dev.Comm. and Murray Valley Wine Grapes Ind. Neg.Comm. [<i>Marketing of Primary Products Act 1983</i>]	Ag	1997-98	Joint review underway with Victoria.
<i>Poultry Meat Industry Act 1986</i>	Ag	1996-97	Underway.
<i>Poultry Processing Act 1969</i>	Ag	1996-97	Complete. To be repealed and replaced with <i>Meat Industry Amendment Act 1998</i> .
<i>Rice Marketing Board [Marketing of Primary Products Act 1983]</i>	Ag	1995-96	Completed. Export powers retained. Domestic marketing powers maintained to 2004, with review in 2000.
<i>Murray Valley Citrus Marketing Act 1989</i>	Ag	1996-97	Joint review underway with Victoria.
<i>Sydney Market Authority Act 1968</i>	Ag	1996-97	Act repealed, review unnecessary.
<i>Tobacco Leaf Stabilisation Act 1967</i>	Ag	1995-96	Completed. Act repealed.
<i>Wheat Marketing Act 1989</i>	Ag	1996-97	Review unnecessary. Act repealed.

Notes: Ag: Dept. of Agriculture; FT: Dept. of Fair Trading.

Sources: NCC (1998e), NCC (1999b).

Outcomes

The highest profile reviews completed in New South Wales have been reviews of rice and dairy statutory marketing arrangements. The New South Wales Rice Review Group completed its review of *Rice Marketing Board [Marketing of*

Primary Products Act 1983] in 1995. It concluded that reform of existing arrangements would be to the benefit of the community. Its main recommendations included the retention of a ‘single desk’ for rice exports and the deregulation of the domestic rice market (NCC 1998c).

In November 1997, the NSW Government decided that it would continue the Board’s vesting powers until 31 January 2004, based on its assessment that the benefits of the regulation were in the range of \$26–\$35 million in 1996-97, rising to \$36–\$45 million in 2000-01. The Government estimated the costs of the regulations at between \$2 million and \$12 million annually (NCC 1999b). The NCC, in its Assessment Report, indicated that it was not convinced that New South Wales’ approach was consistent with the CPA — namely that restrictive arrangements only be retained where a net public benefit can be demonstrated. In regard to the non-implementation of the review recommendations, the NCC reported in June 1998:

Despite extensive discussions with the Council since June 1997, New South Wales has offered no substantive additional information or justification for its decision. As a result, the matter has not advanced from the position at June 1997. (1998c, p. 25)

Following a lack of progress in resolving the issue, the NCC recommended that the Commonwealth deduct \$10 million from the 1998-99 component of the NCP payments otherwise due to New South Wales, but that the deduction not take place until after 31 January 1999 — the Rice Review Group’s recommended date for cessation of vesting (NCC 1998c). On 21 August 1998, the Treasurer announced that a working group comprising representatives of the New South Wales Government, rice growers and the NCC had been established to develop an ‘acceptable’ solution to this matter.

The Treasurer also announced:

I propose to delay until early 1999 any decision on whether New South Wales will have its NCP Payments reduced. This delay will allow the working party to complete its task and enable me to take the outcome into account in making my decision. (Treasurer 1998, p. 2)

In February 1999, the Treasurer presented a proposal to put in place a single desk arrangement for export rice and asked for in-principle agreement from New South Wales to deregulate the domestic market if it can be shown that the single desk is effective in maintaining export premiums. New South Wales has given in-principle agreement.

The review of the *Dairy Industry Act 1979* was completed in November 1997. A Review Group was chaired by a representative from NSW Agriculture and comprised government and industry representatives. The Chairman and industry members (a majority) recommended that the regulated pricing and supply

arrangements remain in place until a further review in 2003. Government representatives sought the removal of regulations (with three to five years notice), supported by an Australian Competition and Consumer Commission (ACCC) authorisation of collective negotiation arrangements as a transitional measure (NSW Government Review Group 1997).

Under the *Dairy Industry Act 1979*, all milk produced in New South Wales is vested in the NSW Dairy Corporation. The corporation sets farm gate prices to producers and the input price paid by processors. To ensure adequate milk supplies, the Corporation also issues production quotas to farmers. Despite acknowledging that these arrangements result in an annual subsidy of between \$56 million and \$87 million to dairy farmers, the Review Group recommended the continuation of these arrangements on the grounds that they provided farmers with countervailing power against processors, they cushioned the New South Wales industry against corrupt world prices, and their removal would adversely affect dairy regions.

In May 1998, the NSW Government accepted these recommendations and announced that it would maintain current regulations controlling food safety, industry services and pricing and supply management for a period of five years, with a further review to be undertaken at that time. This will be achieved by legislating a continuing exemption for milk quotas and farm gate prices from the TPA (Minister for Agriculture and Minister for Land and Water Conservation 1998a). The NSW Government has called on the Commonwealth not to impose a penalty on the State as a result of this decision (Minister for Agriculture and Minister for Land and Water Conservation 1998a, p. 1).

C.3 Victoria

Victoria has listed approximately 430 Acts and regulations for review. Of these, 146 were scheduled for the second tranche; 76 have so far been completed, and 20 are still underway. Table C.4 sets out the schedule for reviews of legislation affecting the marketing of rural products.

To date, reviews have been completed for the *Barley Marketing Act 1993* (in conjunction with South Australia) and the *Dried Fruits Act 1958*.

A review of those parts of the *Agricultural Industry Development Act 1990* and five orders made under the Act relating to four Victorian primary production industries — wine grapes in the Murray Valley region (two orders), fresh tomatoes in Northern Victoria, strawberries and emus — was still underway at the time of the Second Tranche Assessment. KPMG Management Consulting Limited has been engaged to

conduct the review, as part of a joint review with aspects of the NSW *Marketing of Primary Products Act 1983*.

The CIE commenced a combined review for New South Wales and Victoria of the *Murray Valley Citrus Marketing Acts 1989* in November 1998. The CIE also conducted the review of the *Dairy Industry Act 1992*. A background paper was released in September 1998, and public submissions were invited (DNRE 1998a). The report to the Victorian Government was due by July 1999, and had not been released by the time of the NCC's Second Tranche Assessment (NCC 1999b, vol. 1). Nevertheless, the Victorian Government has announced:

The in-principle decision to remove the price and supply control on market milk ... (McNamara 1999)

A review of the *Broiler Chicken Industry Act 1978* and Broiler Chicken Industry Regulations 1992 commenced in late 1998. Terms of reference were released and tenders called for from consultants interested in conducting the review, with KPMG being the successful consultant. A background paper was released in October 1998. According to the terms of reference, the consultant was required to report by 14 May 1999, although the report had not been finalised by the time of the Second Tranche Assessment (NCC 1999b, vol. 3).

Table C.4 Reviews of Victorian statutory marketing legislation

<i>Name of legislation</i>	<i>Agency</i>	<i>Date for completion</i>	<i>Reform progress</i>
<i>Agricultural Industry Development Act 1990</i>	AR	Dec 1997	Joint review with NSW completed. Awaiting response.
<i>Barley Marketing Act 1993</i>	AR	Dec 1996	Joint review with SA completed. Single desk for export barley sales to be retained until July 2001. Oats market in SA to be deregulated. Domestic barley market to be deregulated.
<i>Broiler Chicken Industry Act 1978</i>	AR	May 1999	Underway.
<i>Cooperation Act 1981</i>	FT	June 1998	Replaced by <i>Cooperatives Act 1996</i> .
<i>Dairy Industry Act 1992</i>	AR	July 1999	Underway.
<i>Dried Fruits Act 1958</i>	AR	Dec 1997	Act repealed.
<i>Meat Industry Act 1993</i>	AR	Dec 1999	Nil.
<i>Melbourne Market Authority Act 1977</i>	AR	Jun 1998	Delayed pending completion of Competitive Neutrality Review.
<i>Murray Valley Citrus Marketing Act 1989</i>	AR	April 1999	Joint review underway with NSW.
<i>Wheat Marketing Act 1989</i>	AR	June 2000	Awaiting Commonwealth review.

Notes: AR: Dept. Agriculture and Resources; FT: Dept. Fair Trading.

Sources: NCC (1998e); NCC (1999b).

Outcomes

The joint review of the *Barley Marketing Act 1993*, commissioned by the South Australian and Victorian Governments and conducted by the CIE, was completed in November 1997. The review recommended the deregulation of the domestic market for feed and malting barley in South Australia and Victoria, the oats market in South Australia, and the abolition of the Australian Barley Board's (ABB) single desk export power. The review found that the ABB's ability to price discriminate in domestic markets by charging prices higher than the prevailing world price imposed net costs on the community, while the price premiums on export markets were a result of quality and transport cost differentials rather than any market power conferred through the single export desk (CIE 1997).

This joint review has been cited by the NCC as a 'benchmark' review (in terms of the process followed). According to the NCC:

This review was done by an independent review panel, undertook significant consultation and produced a robustly argued report with analysis and recommendations framed against the terms of reference. In many ways, it represents a benchmark for the conduct of reviews, at least for those relating to statutory marketing arrangements. (1998c, p. 6)

In response to this review and further consultations with industry, the Victorian Government introduced legislation to establish two grower-owned companies, ABB Grain Limited and a subsidiary company ABB Grain Export Limited, to take over the marketing responsibilities of the ABB by 30 June 1999. The Victorian Minister for Agriculture and Resources noted that the key objectives of the reform process were 'to fully privatise the ABB and to extend the single desk to the 30th of June 2001' (Minister for Agriculture and Resources 1998).

C.4 Queensland

Queensland has scheduled 114 legislation reviews, 68 of them for the second tranche. Of these, 31 had been completed and 24 per cent were underway by the time the Second Tranche Assessment was released. Table C.5 sets out the schedule for reviews of legislation affecting the marketing of rural products.

The major reviews completed to date include the Brisbane Market Authority, dairy, sugar, chicken meat, and grains. The *Egg Industry Act 1993* was allowed to 'sunset' on 31 December 1998.

Table C.5 Reviews of Queensland statutory marketing legislation

<i>Name of legislation</i>	<i>Agency</i>	<i>Date of review</i>	<i>Reform progress</i>
<i>Chicken Meat Industry Committee Act 1976</i>	PI	1996-97	Completed. Growers able to contract directly with processors.
<i>City of Brisbane Market Act 1960 and City of Brisbane Market Regulation 1982</i>	PI	1997-98	Completed. Monopoly to be repealed by Dec 1999.
<i>Dairy Industry Act 1993</i>	PI	1997-98	Completed. Post-farmgate regulations ended Dec 1998. Farm gate regulations extended to 31 December 2003.
<i>Egg Industry (Restructuring) Act 1993</i>	PI	1997-98	Act 'sunsetted' at end of 1998.
<i>Farm Produce Marketing Act 1964</i>	PI	1997-98	Act is due to sunset on 31/12/99.
<i>Fruit Marketing Organisation Act 1923</i>	PI	1997-98	Completed. Marketing provisions to be repealed.
<i>Grain Industry (Restructuring) Act 1991</i>	PI	1995-96	Completed. Vesting powers retained for export barley. Vesting powers for wheat awaiting review of Commonwealth legislation. All other grains to be deregulated.
<i>Primary Producers' Organisation and Marketing Act 1926.</i>	PI	1996-97	Completed. Orders in Council for tobacco leaf repealed October 1998. Existing provisions relating to marketing boards to be repealed via the 'PILA' Bill 1998.
<i>Sugar Industry Act 1991</i>	PI	1995-96	Completed. Replaced by new <i>Sugar Act 1999</i> .
<i>Wine Industry Act 1994</i>	TSBI	1998-99	Underway.

Notes: PI: Primary Industries.

Sources: NCC (1998e); NCC (1999b).

Outcomes

The review of sugar statutory marketing arrangements was conducted by a Sugar Industry Review Working Party (SIRWP), which was established by the Queensland and Commonwealth Governments in September 1995. The SIRWP, comprising government (State and Commonwealth) and industry representatives, presented its final report in November 1996.

The review recommended the removal of the \$55 per tonne specific tariff on sugar imports. The review found that the tariff cost consumers up to \$26.7 million per annum in the form of higher domestic sugar prices. The tariff was subsequently removed in November 1997. The review also recommended the continuation of compulsory acquisition for all raw sugar produced in Queensland; the retention of the Queensland Sugar Corporation (QSC) as the single desk seller for both the export and domestic markets; that the pooling of revenues and costs be retained; and that a system of producer pricing be introduced (SIRWP 1996).

Following release of the report, there were concerns that the compulsory acquisition powers of the QSC contravened the competitive conduct rules of the TPA. On request from the Queensland Government and CANEGROWERS (the peak body representing Queensland sugarcane growers), the Commonwealth Government introduced legislative amendments to the TPA to secure the compulsory acquisition powers of the QSC (Minister for Primary Industries and Energy 1998b).

In addition (and as with the NSW review of rice statutory marketing arrangements), the NCC has expressed reservations about the outcome of the *Sugar Industry Act 1991* legislation review. According to its 1996-97 Annual Report, the NCC's concerns centre on the validity of the review's conclusion that the benefits of full domestic deregulation can be achieved by mandating the provision of export parity priced raw sugar to the domestic market while, at the same time, avoiding the adverse impact of domestic deregulation on the competitiveness of export arrangements (NCC 1997a).

The NCC also expressed concerns about the basis of the estimated 'Far East premium', and the review's expectation that it will persist over time. The NCC noted that the Queensland Government has undertaken to reconsider marketing arrangements for sugar within ten years if changes in market conditions suggest that the current arrangements may no longer be providing a public benefit. (NCC 1998a)

The *Grain Industry (Restructuring) Act 1993* was first reviewed in 1995, with a report released in June 1995. An additional review to comply with Queensland's NCP legislation schedule was carried out in 1997. The major recommendations of the review were:

- to end the vesting powers for domestic grains other than wheat and barley;
- to maintain single desk selling of export barley until 30 June 2002; and
- to maintain wheat export powers subject to the Commonwealth review of the *Wheat Marketing Act 1989* in 1999-2000.

The Queensland Cabinet has accepted these recommendations. The extension of the monopoly over export barley was based on the results of a public benefit test. The *Grain Industry (Restructuring) Act 1993*, which originally had a 'sunset clause' of 30 June 1998, was extended to 30 June 1999 to enable all of the recommended legislative amendments to be passed.

A review of farm gate regulation under the *Dairy Industry Act 1993* by the Queensland Dairy Legislation Review Committee (QDLRC), was completed in July 1998. Post-farm gate regulations, including processor franchises, sunsetted on 1 January 1999. The QDLRC made nine recommendations — the most significant of which included:

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- the farm gate price of milk should continue to be regulated until 31 December 2003 — subject to earlier review if necessary. This was justified on the ground that the adverse impact of deregulation could be significant for some rural communities;
 - supply management arrangements in South East Queensland should be retained until 31 December 2003 following removal of exclusive franchise areas, and extended to Central and North Queensland, to ensure ‘equitable arrangements’ for all dairy farmers;
 - licensing of producers and processors, monitoring and enforcing mandatory food safety and quality assurance requirements, and legislative provisions imposing mandatory charges for the funding of generic promotion should continue; and
 - the extent of government involvement in the dairy industry after 31 December 2003 should be reviewed before 1 January 2003, and earlier if necessary (QDLRC 1998).

It was recognised, however, that the dairy review may need to be revisited as a result of the outcome of the dairy review in Victoria. As the QDLRC report noted:

The proposed regulated farm-gate price ... and associated supply management arrangements ... would be difficult to maintain if deregulation occurs in Victoria before 31 December 2003. It may be necessary to review these recommendations when the outcome of the Victorian NCP review is known. (1998, pp. 14–15)

As part of its legislative review, the Government is to repeal dormant legislative provisions that provide for the establishment of commodity marketing boards with vesting powers and other anti-competitive intervention measures in the fruit and vegetable industries (termed ‘Directions’). The provisions are contained in the *Primary Producers Organisation and Marketing Act 1926* and the *Fruit Marketing Organisation Act 1923*. Covered under these provisions in the past had been commodities as diverse as cotton, eggs, barley, tobacco, navy beans and peanuts. As these arrangements are no longer being used — the last Directions ceased in 1995 — provisions to repeal them are contained in the *Primary Industries Legislative Amendment Bill 1999*.

C.5 Western Australia

Western Australia has listed approximately 270 pieces of legislation for review, with 166 scheduled for inclusion in the second tranche. Of these, 92 had been completed when the NCC made its Second Tranche Assessment. Table C.6 sets out the scheduled timing of relevant legislative reviews for this inquiry.

Reviews have been completed for chicken meat, cooperatives, dairy, dried fruits, fruit, grain marketing and horticulture.

Reviews in progress at the end of 1998 include the *Marketing of Eggs Act 1945*, and the *Marketing of Potatoes Act 1946*. Preliminary work is occurring on the *Agricultural Products Act 1929*. Reviews of the *Marketing of Meat Act 1946*, the *Perth Market Act 1926* and the *Wheat Marketing Act 1989* are to commence in 1999.

Table C.6 Reviews of Western Australian statutory marketing legislation

<i>Name of legislation</i>	<i>Agency</i>	<i>Date of review</i>	<i>Reform progress</i>
<i>Bulk Handling Act 1967</i>	PI	1997-98	Deferred to December 1999.
<i>Carnarvon Banana Industry (Compensation Trust Fund) Regulations 1962</i>	PI	1998-99	Completed. To be repealed.
<i>Chicken Meat Industry Act 1977</i>	PI	1996-97	Completed. Some restrictions to be removed. Entry restrictions to grower and processing sectors to be removed. Individual contract negotiations permitted where growers wish to opt out of collective bargaining arrangements.
<i>Dairy Industry Act 1973</i>	PI	1997-98	Completed. Restrictions on competition to be retained in public interest.
<i>Dried Fruits Act 1947</i>	PI	1996-97	Completed. Act to be repealed in 2000.
<i>Fruit Growing Industry Trust Fund Act 1941</i>	PI	1996	Repealed.
<i>Grain Marketing Act 1975</i>	PI	1998-99	Act to be amended to include public interest test
<i>Horticultural and Produce Commission Act 1988</i>	PI	1997	Completed. Amended to ensure compulsory levies on growers are only used to fund public good activities and are subject to cost-benefit test.
<i>Marketing of Eggs Act 1945</i>	PI	1997-98	Underway.
<i>Marketing of Meat Act 1946</i>	PI	1998-99	Not commenced.
<i>Marketing of Potatoes Act 1946</i>	PI	1997-98	Underway.
<i>Perth Market Act 1926</i>	PI	1998-99	Not commenced.
<i>Poultry Industry (Trust Fund) Act 1948</i>	PI	1996-97	Completed. Act to be amended to ensure compulsory levies on growers are only used to fund public good activities and are subject to cost-benefit test.
<i>Wheat Marketing Act 1989</i>	PI	1998-99	Not commenced.

Notes: PI: Primary Industry.

Sources: NCC (1998e); NCC (1999b).

Outcomes

The review of the *Chicken Meat Industry Act 1977* recommended that broiler growers be allowed to negotiate contracts directly with processors, to enable greater

flexibility and competition, and that entry restrictions to the growing and processing sectors be removed.

C.6 South Australia

South Australia has listed approximately 180 pieces of legislation for review, with 121 scheduled for the second tranche. At the time of the NCC's Second Tranche Assessment, 46 had been completed. Table C.7 sets out the scheduled timing of reviews of legislation affecting the marketing of rural products.

Table C.7 Reviews of South Australian statutory marketing legislation

<i>Name of legislation</i>	<i>Agency</i>	<i>Date of review</i>	<i>Reform progress</i>
<i>Barley Marketing Act 1993</i>	PIRRND	1997	Completed. Joint review with Victoria. Single desk for export barley sales to be retained for 12 months. Oats market in SA to be deregulated. Domestic barley market to be deregulated from July 1999.
<i>Citrus Industry Act 1991</i>	PIRRND	1998	Underway.
<i>Dairy Industry Act 1992</i>	PIRRND	1998	Underway.
<i>Deer Keepers Act 1987</i>	PIRRND	1999	To be replaced by <i>Livestock Act 1997</i> .
<i>Dried Fruits Act 1993</i>	PIRRND	1998	Underway.
<i>Dairy Industry Assistance (Special Provisions) Act 1978</i>	PIRRND	1998	Repealed by Schedule 2 of the <i>Livestock Act 1997</i> .
<i>Bulk Handling of Grain Act 1955</i>	PIRRND	1998	Completed. Act to be repealed.
<i>Garden Produce (Regulation of Delivery) Act 1967</i>	PIRRND	1998	Underway.
<i>Marginal Dairy Farms (Agreement) Act 1971</i>	PIRRND	1998	Nil.
<i>Phylloxera and Grape Industry Act 1995</i>	PIRRND	1998	Not commenced.
<i>Poultry Meat Industry Act 1969</i>	PIRRND	1998	Completed. ACCC authorisation granted for collective negotiation of fees and conditions between growers and Inghams to April 2002.
<i>Wheat Marketing Act 1989</i>	PIRRND	2000	Nil.
<i>Wine Grapes Industry Act 1991</i>	PIRRND	1998	Underway.

Notes: PIRRND: Primary Industries, Natural Resources & Regional Development.

Sources: NCC (1998e); NCC (1999b).

Reviews of the *Barley Marketing Act 1993* (jointly with Victoria), the *Bulk Handling of Grains Act 1955*, the *Cooper Basin (Ratification) Act 1975* and the *Poultry Meat Industry Act 1969* have been completed.

A review of the *Wine Grapes Industry Act 1991* was underway at mid-1999. Primary Industries and Resources South Australia (PIRSA) engaged KPMG

Management Consulting Limited to conduct a preliminary analysis, as part of a concurrent review of aspects of the New South Wales *Marketing of Primary Products Act 1983* and the Victorian *Agricultural Industry Development Act 1990*. Reviews of the *Citrus Industry Act 1991*, *Dairy Industry Act 1992*, *Dried Fruits Act 1993* are also underway.

Outcomes

The outcome of the review of the *Barley Marketing Act 1993* was discussed under the section on Victorian legislation reviews.

C.7 Tasmania

Tasmania listed 236 Acts for review; 202 for the second tranche. Of these, 113 had been completed for the NCC's Second Tranche Assessment. Table C.8 sets out the scheduled timing of reviews of legislation affecting the marketing of rural products.

Table C.8 Reviews of Tasmanian statutory marketing legislation

<i>Name of legislation</i>	<i>Agency</i>	<i>Date of review</i>	<i>Reform progress</i>
<i>Apple and Pear Industry (Crop Insurance) Act 1982</i>	DPIF	1996	Completed. Compulsory insurance with the Fruit Crop Insurance Board ended.
<i>Dairy Industry Act 1994</i>	TDIA	1998	Underway.
<i>Egg Industry Act 1988</i>	DPIF- EMB	1998	Completed. Awaiting decision.
<i>Grain Reserve Act 1950</i>	TGEB- DPIF	1998	Underway.

Notes: DPIF: Dept. Primary Industry & Fisheries; EMB: Egg Marketing Board; TDIA: Tasmanian Dairy Industry Authority; TGEB: Tasmanian Grain Elevators Board.

Sources: NCC (1998e); NCC (1999b).

Reviews of the *Apple and Pear Industry (Crop Insurance) Act 1982*, and the *Egg Industry Act* have been completed. A review of the *Dairy Industry Act 1994* was underway at mid-1999. The review panel comprises Tasmanian Government and dairy industry representatives, and released an issues paper on 27 October 1998. The issues paper describes the operating environment of the Tasmanian dairy industry, the provisions of the *Dairy Industry Act 1994*, the legislative arrangements governing milk production and distribution in other States and Territories and the nature of the restrictions on competition in the Act. The panel held public meetings in Tasmania during November 1998. Public submissions to the review panel were due in November 1998.

The review panel was to report to the Minister for Finance and the Minister for Primary Industries, Water and Environment by 29 May 1999. The review was still underway as at July 1999.

A review of the *Egg Industry Act 1988* commenced in August 1998. The Egg Industry Review Group, comprising representatives from the Department of Primary Industries, Water and Environment (amalgamated from the Department of Primary Industries and Fisheries and the Department of Environment and Land Management) and the Department of Treasury and Finance, and community representatives, released an issues paper in August 1998 which called for public submissions by September 1998. The Review Group found that the restrictions could not be justified on public benefit grounds, and recommended that: the licensing/quota system for egg producers be abolished; the vesting powers of the Egg Marketing Board be abolished; and that the prohibition of eggs from unlicensed producers be abolished.

C.8 Australian Capital Territory

The Australian Capital Territory (ACT) has listed 181 Acts which restrict competition for review under the second tranche, of which 56 had been completed by the Second Tranche Assessment.

The ACT has only one piece of statutory marketing legislation, the *Milk Authority Act 1971*. Table C.9 sets out the scheduled timing of the review of this legislation.

Table C.9 Review of ACT statutory marketing legislation

<i>Name of legislation</i>	<i>Agency</i>	<i>Date of review</i>	<i>Reform progress</i>
<i>Milk Authority Act 1971</i>	Urban Services	1998	Completed. Subsidies and exclusive franchises to be phased out over 2 years.

Source: NCC (1999b).

C.9 Northern Territory

The Northern Territory has scheduled 85 Acts for review under the second tranche, of which 26 have been completed. Following the repeal of the Grain Marketing Act in August 1996 and the subsequent dissolution of the Northern Territory Grain Marketing Board, the Northern Territory has no statutory marketing legislation.

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